

Release to Australian Securities Exchange

ITP Litigation Settled

29 September 2008

The directors advise that agreement has been reached with the investment partners of the Interactive Telephony transaction to settle the outstanding litigation with them, by an all-inclusive payment of \$3.8 million, subject to execution of appropriate documentation.

This settlement constitutes a significant concession by each of Redflex and the partners relative to their initial positions in recognition that there was risk as to the outcome of the litigation and that there would be significant additional cost, inconvenience and uncertainty in proceeding to trial. On the information available to them, the directors believe the settlement is reasonable in the circumstances.

The Interactive Telephony transaction has been reported in Redflex annual accounts since 2000 and has been noted as a contingent liability since 2004.

The Interactive Telephony Partnership was a structured financing transaction that was entered into in June 2000 for the purpose of providing commercialisation funding for the Visible Voice subsidiary of Redflex. Visible Voice received net \$2.6 million in funding, and in addition the transaction was expected to enable the utilization of Redflex's significant tax losses, as well as giving rise to certain tax deductions for the partners on their investment.

Subsequently, the anticipated tax deductions were disallowed by the Australian Tax Office and the partners issued proceedings against Redflex for approximately \$5.2 million plus accrued interest and costs. The basis of their claim was that an Exit Price of \$5.2 million was payable on the wind-up of the transaction. Redflex, on its interpretation of the transaction documents maintained that the Exit price was \$28,263.

Although this concludes direct action with the Interactive Telephony Partnership, Redflex will continue its action against other parties that advised on the transaction, with a view to recovery of the settlement amount.

The settlement agreement has arisen after the Appendix 4E Preliminary Final Release but prior to release of the final annual accounts for the Redflex group. Now that the settlement amount can be reliably measured, it has now been recorded as a liability in the FY08 accounts. The item is being treated as relating to a discontinued operation and results in a reduction to pre-tax profit of \$3.8 million and a reduction to after-tax profit of \$2.66 million.

This is a one-off resolution of an historical transaction which will have no impact on ongoing profitability.

Redflex divested the Visible Voice subsidiary in May 2002.

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