

## Managing Director's Address to Shareholders

25 November 2016, Melbourne:

Thank you, Mr Chairman

Before commenting on the Group's operations and future prospects, I would first like to comment on the result for the 2016 financial year.

We were disappointed to report a loss for 2016. Revenue was \$44m, compared to \$46m in 2015. However, NPAT (including impairment charges to goodwill and a write down of the deferred tax asset) was a loss of \$22m, compared to a profit of \$0.4m in 2015.

Given the result for the 2016 financial year and the uncertain economic climate, the Group performed impairment testing on the value of goodwill in the balance sheet and it was considered prudent by the Board to record an impairment provision of \$20m against the value of goodwill in the 30 June 2016 financial statements. The Group also wrote off a deferred tax asset of \$1.4m previously recorded in the balance sheet. Neither of these items affect cash flow or the trading operations of the Group.

EBITDA before one-off costs was \$3.5m compared to \$5.3m in 2015. Trading conditions have been difficult over the past 12 months, in particular in the second and third quarters of the 2016 financial year, with continued government expenditure constraints and uncertain political and economic conditions. However the fourth quarter saw a substantial improvement which has given the Group confidence leading into the current financial year.

The Group has diversified its product mix and offerings over the past 18 months which is expected to benefit future results. LED road lights, electronic signage (referred to as Intelligent Transportation Systems or "ITS") and maintenance contracts have become more significant in the revenue mix, bolstering the Group's position for the future.

Over the past few years we have developed an LED road light which is significantly more energy efficient than conventional road lights. The range of LED road, street and tunnel lights along with the control system developed by the Group will enable state road authorities and local councils to achieve substantial power savings and reduce maintenance costs in a time of rising electricity prices. With customer supply contracts in place we saw an increase of over 300% in sales for the 2016 financial year. In particular the Group secured supply contracts in early 2016 with five Energy Distribution Businesses (EDB's) for the supply of "V" category LED road lighting for up to three years. Major orders were delivered in the fourth quarter of the 2016 financial year and the Group expects this to be a significant growth area following the securing of further significant lighting contracts and approvals from the relevant authorities in Victoria, Queensland, South Australia and New South Wales.

We have continued our research and development programs to ensure that we remain market leaders in a global traffic industry which demands energy efficient products and increasingly innovative solutions. The Group has developed a range of new products in the Intelligent Transport Systems (ITS) sector, including school speed zone signs, variable message signs and various electronic signs which have now been commercialised.

We achieved an increase of over 50% in sales in the 2016 financial year for our electronic signs and associated ITS products across the country. As state road authorities increasingly use ITS equipment to manage the road network more efficiently we expect this to be a significant growth area for years ahead as more government road authorities around the world embrace the use of “smart” technology to manage and monitor traffic flows in order to decrease traffic congestion and CO2 emissions.

The Group has continued its initiatives to develop and grow its export markets with a 27% increase in export sales over the past year to overseas markets including the UK, New Zealand, Asia, the Middle East and South America. QTC in particular is continuing to win significant export contracts along with an increased presence in Australia, having achieved type approval for its products in a number of Australian states. The securing of new contracts and orders from export markets has enabled the Group to cross sell its products and services portfolio into these regions.

The Group’s traffic signal business continues to maintain its position as the dominant supplier of traffic signals to the Australian market. Although there were no major traffic signal upgrades during the year, the Group has continued to supply traffic signals for new intersections and road projects as well as for maintenance requirements. Continued development of innovative traffic signal solutions, such as the “Central Light Source” traffic signal, pedestrian countdown timers and Lantern Indicator Detection Safety Systems (LIDSS) which utilise the latest LED technology and software have been supplied to customers in a number of states of Australia, together with New Zealand and the United Kingdom.

Following the completion of the New South Wales traffic signal upgrade last year, there are a number of further traffic signal upgrade opportunities in Australia in the years ahead. It is also expected that LED traffic signals that were installed more than a decade ago are slowly coming to the end of their useful life and will need to be replaced or upgraded to the next generation traffic signal.

The Signage business continues to be one of the only national suppliers of road signs to the Australian market. The Signage business again contributed to operating earnings in the 2016 financial year. A continued focus by management and staff on cost control and factory efficiency combined with a focus on quality, service and reliability has become the benchmark in a highly competitive market.

The Group continues with its “profit improvement program” in identifying diversification, cost savings, improvements in manufacturing processes, systems and procurement strategies. In particular this can be seen with the increase in product and service diversification over the year with a swing from traditional traffic signals by 43% to other products and services such as road lighting, ITS, traffic controllers, export markets and maintenance.

Turning now to the current financial year, performance has to date been encouraging including a strong performance from QTC and continued healthy order flow in lighting. However delays in some expected projects means we are modestly below expectations. Some of this may be made up in future months with orders now in hand. The traffic signals market remains flat with continuing strong price competition.

Debt facilities with Westpac have been extended to 1 April 2018 and net debt has been reduced to \$22.1m at 31 October 2016. This has been achieved in an environment where we continue to build inventory to support growing sales.



ABN 21 080 415 407  
**Traffic Technologies Ltd.**  
address. 31 Brisbane Street, Eltham Victoria 3095 Australia  
PO Box 828, Eltham Victoria 3095 Australia  
phone. + 61 3 9430 0222 **facsimile.** + 61 3 9430 0244  
**web.** [www.traffictld.com.au](http://www.traffictld.com.au)

It is premature to discuss expected results for the financial year ending 30 June 2017. However, the Board and management of TTI are pleased with the growing level of product diversification being achieved and the significant long term customer supply contracts recently secured. These efforts to broaden the revenue base with new lighting and ITS products and to broaden the revenue and customer base with expanding export sales particularly in QTC when combined with careful management of costs are expected to lift revenues and return the business to profitability.

Finally, I would like to take this opportunity to thank our shareholders for their continued support along with all the staff and management of the Group.