

TRAFFIC TECHNOLOGIES LTD ABN 21 080 415 407 AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2017 PROVIDED TO THE ASX UNDER LISTING RULE 4.3A

Appendix 4E

Preliminary final report

Name of entity

TRAFFIC TECHNOLOGIES LTD

ABN or equivalent company reference

Year ended:

current period Previous corresponding

period

ABN 21 080 415 407

30 June 2017 30 June 2016

Results for announcement to the market

Continuing Operations				A\$′000
Revenues from ordinary activities (item 2.1)	up	11%	to	\$48,853
Earnings before interest and tax	up	114%	to	\$2,679
Profit/(loss) from ordinary activities after tax attributable to members (item 2.2)	up	105%	to	\$1,011
Net profit/(loss) for the period attributable to members (item 2.3)	up	105%	to	\$1,011

Dividends (distributions) (item 2.4)	Amount per security	Franked amount per security
Interim dividend	Nil¢	Nil¢
Final dividend	Nil¢	Nil¢
Previous corresponding period:		
Interim dividend	Nil¢	Nil¢
Final dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend		N/A

Traffic Technologies Ltd - Appendix 4E Preliminary Final Report

Other Information

Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood (item 2.6):

For commentary on the results for the period and review of operations, refer to Directors' Report.

1. Net Tangible Asset Backing

	As at 30 June 2017	As at 30 June 2016
Net tangible assets per share	(3.6) cents	(3.9) cents

2. Dividends

No dividends have been declared in respect of the year ended 30 June 2017 (2016: Nil). Total dividend Nil (2016: Nil).

The Company has adopted a Dividend Reinvestment Plan (DRP) to provide shareholders with the opportunity to reinvest their dividends in ordinary shares in the Company free of brokerage, commissions and other transaction costs. The DRP is governed by the DRP rules. Subject to the DRP rules, participation is open to shareholders with registered addresses in Australia and New Zealand. Participation can be full or partial and can be varied or cancelled at any time. If a shareholder elects to participate in the DRP, the dividend otherwise payable on the shareholder's ordinary shares participating in the DRP will be reinvested in ordinary shares in the Company. These shares will either be issued to the shareholder or acquired on-market and transferred to the shareholder. Shares may be allocated at a discount to the market price of the shares. The Directors will determine a discount of up to 10% for each dividend declared.

3. Status of Audit

The unqualified, signed annual financial report is attached.

4. Corporate Information

Directors

Mr. Garry Lowrey

Mr. Con Liosatos

Mr. Mark Hardgrave

Mr. Ken Daley (retired 24 November 2016)

Company Secretary

Mr. Peter Crafter

Registered Office and Principal Place of Business

Traffic Technologies Ltd 31 Brisbane Street Eltham VIC 3095

Share Register

Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston Street Abbotsford VIC 3067

Tel: 1300 850 505

Traffic Technologies Ltd shares are listed on the Australian Stock Exchange (stock code: TTI).

Traffic Technologies Ltd – Appendix 4E Preliminary Final Report

Other Information

Lawyers

K&L Gates Level 25 525 Collins Street Melbourne VIC 3000

Bankers

Westpac Banking Corporation Level 6 150 Collins Street Melbourne VIC 3000

Auditors

ShineWing Australia Level 10 530 Collins Street Melbourne VIC 3000

annual report 2017







TRAFFIC TECHNOLOGIES LTD

ABN 21 080 415 407 AND CONTROLLED ENTITIES

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

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.trafficltd.com.au

Traffic Technologies Ltd and Controlled Entities Chairman's Letter

Dear Shareholder,

I have pleasure in enclosing the Annual Report for Traffic Technologies Ltd for the financial year ended 30 June 2017.

I am pleased to report an improved result for the 2017 financial year. The improved performance is the result of the Group's strategy to diversify revenue streams through investment in the development of state-of-the-art LED road lights, Intelligent Transport Systems (ITS) and traffic signal products and services, and a continued focus on profit improvement opportunities. The Group's improved results are discussed further below with more detail on the Group's operations included in the Managing Director's Operating and Financial Review.

The Company's results have benefitted from sales growth across its product range and services, in the securing of long term contracts and a strong order book. The Company has also seen growth in a range of export markets, including Asia, Middle East and New Zealand, as well as other markets around the world.

Various contract wins across the Group and in particular significant street lighting contracts including the supply of street lights to Manningham City Council and the M80 Ring Road Upgrade in Victoria and contracts to supply street lights to power companies and road authorities in New South Wales, Victoria, South Australia and Queensland have benefitted the FY17 result and are expected to contribute to profit in FY18.

The Group has continued with its focus on research and development of state-of-the-art products to manage traffic flows in an increasingly inter-connected world. These include new products for the ITS sector and exciting new developments utilising the "Internet of Things" and "Smart City" applications.

The Board continues to work closely with management on strategy. While we are pleased with the improvement achieved over the past financial year we are mindful of the challenges still before us. Technology is driving many exciting new developments and it is critical that the business is appropriately positioned to respond to opportunities in a dynamic market. Further announcements will be made in due course.

Our Board and management are committed to the ongoing improvement of shareholder value. Along with my fellow Directors, I thank you for your continued support.

Garry Lowrey Chairman



ABN 21 080 415 407

Traffic Technologies Ltd.
address. 31 Brisbane Street, Eltham Victoria 3095 Australia
PO Box 828, Eltham Victoria 3095 Australia
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Traffic Technologies Ltd and Controlled Entities Managing Director's Operating and Financial Review

Dear Shareholder,

I am pleased to report an improved result for the 2017 financial year.

Revenue was \$48.9m, compared to \$44.0m in 2016 (an increase of 11%), whilst EBITDA after one-off costs of \$0.5m was \$4.6m compared to \$2.6m in 2016 (an improvement of 77%). NPAT was a profit of \$1.0m, compared to a loss of \$22.3m in the previous financial year (which included an impairment provision of \$20.0m and the write down of a deferred tax asset of \$1.4m).

The 2017 financial year saw the Group return to profitability, with all product groups and services contributing to the result. The Group's result can be attributed to the significant investment in R&D and diversification in its product offerings and services along with the continued rationalisation of production, procurement and staff.

Depreciation and amortisation expense reduced by 92% from the previous year; with the majority of the current year expense being amortisation of intangible assets. This compares with depreciation and amortisation expense in 2016 which included the impairment provision. Finance costs reduced by 6% which mainly relate to interest on the Group's finance facilities. Tax expense was \$0.2m and related to deferred tax movements; the Group has sufficient tax losses to cover any tax liability for the year. Tax expense of \$1.2m in 2016 included the write down of a deferred tax asset of \$1.4m.

Net assets improved by 14% at 30 June 2017, reflecting the profit for the year and the reduction in net debt by 7% at 30 June 2017. I am pleased to acknowledge our bankers who have extended the Company's debt facilities to 1 November 2018.

Net operating cash inflows were \$3.6m for the year (2016: inflow \$0.6m), reflecting the growth in the Group's operations during the year. Net investing cash outflow was \$1.8m, (2016: outflow \$2.0m), including further investment in R&D to further expand and develop the Group's products and services. Net financing cash outflow was \$2.4m (2016: inflow \$1.6m), comprising repayment of borrowings.

The 2017 financial year reflected an improvement in trading performance across the Group from services, export and products and, whilst this has been a positive trend, we see this continuing due to a solid start to the 2018 financial year with an extremely strong order book and contracts in hand.

The Group continued to diversify its earnings base, in terms of products, services and markets and this is expected to provide further growth opportunities in the years ahead. The Group's product and services range has been extended with the commercialisation of a range of LED road and street lights, controllers to a much broader base, software platforms for "Smart City" and "IoT" applications, maintenance of key assets and a range of ITS products for use in Smart City applications.

This diversification of the Group's product and services range has led to positive growth and is expected to continue in the 2018 financial year through formal approvals and recognition being gained in lighting, controllers and traffic signal portfolios. In addition, the diversification program has led to de-risking of the Group's revenue stream and the securing of long term supply contracts and orders to date.

The Group's lighting products in particular have had a successful year, having secured approvals, long term supply contracts and orders from state and local government agencies, power companies and contractors. The Group's LED road light is significantly more energy efficient than conventional road lights and represents an attractive opportunity for state road authorities, local councils and other customers to make significant savings in their power bills and maintenance costs in a time of rising electricity prices.

With customer supply contracts in place we have seen an increase of over 50% in lighting sales for the 2017 financial year. The Group has secured a number of important contracts including contracts for the supply of road lights to the M80 Ring Road Upgrade and Manningham City Council in Victoria, along with contracts to supply LED street lights to power authorities in Victoria, New South Wales, South Australia and the Queensland state road authority.

With significant growth expected in the ITS sector the Group has positioned itself by having developed a suite of new products for state road authorities to manage the road network more efficiently, including school speed zone signs, variable message signs and various electronic signs which have now been commercialised.

Our export markets have continued to grow and develop with an increase in export sales of 13% to the UK, New Zealand, Asia, the Middle East and South American markets and in particular in controller sales with an exponential growth of over 40% compared to the previous year in sales both locally and offshore.

The Group continues to be the dominant supplier of traffic signals to the Australian and New Zealand market with the continued supply for new intersections and road projects as well as for maintenance requirements. Export sales as mentioned above have increased and continue to be at the forefront of our expansion program.

Signage products continue to contribute positive earnings to the Group as the only national supplier of road signs to the Australian market, with operations in every state. The continued focus by management and staff on cost control and factory efficiency combined with a focus on quality, service and reliability has led to the Group's signage products becoming the benchmark in a highly competitive market.

Whilst we believe that the necessary changes and improvements we have made and continue to make to the business, along with new products introduced and significant long term customer supply contracts recently secured, will lift revenues and further improve profitability, caution must be exercised given the uncertain economic outlook combined with the fact that we are still early in the new financial year. We are not therefore yet in a position to provide earnings guidance for the financial year ending 30 June 2018 but with a strong start to the year and a solid order book, expectations are high for a positive earnings result.

We are pleased to have your ongoing support and look forward to continued profitability in the year ahead.

Con Liosatos

Managing Director

CORPORATE INFORMATION

This annual report covers both Traffic Technologies Ltd (ABN 21 080 415 407) and its subsidiaries. The Group's functional and presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the operating and financial review in the Directors' Report.

Directors

Mr. Garry Lowrey Mr. Con Liosatos

Mr. Mark Hardgrave

Mr. Ken Daley (retired 24 November 2016)

Company Secretary & Chief Financial Officer

Mr. Peter Crafter

Registered Office & Principal Place of Business

Traffic Technologies Ltd 31 Brisbane Street Eltham VIC 3095

Share Register

Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston Street Abbotsford VIC 3067 Tel: 1300 850 505

Traffic Technologies Ltd shares are listed on the Australian Securities Exchange (stock code: "TTI").

Lawyers

K&L Gates Level 25 525 Collins Street Melbourne VIC 3000

Bankers

Westpac Banking Corporation Level 6 150 Collins Street Melbourne VIC 3000

Auditors

ShineWing Australia Level 10 530 Collins Street Melbourne VIC 3000

Traffic Technologies Ltd and Controlled Entities Financial Report for the year ended 30 June 2017 Contents

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Your Directors submit their report for the year ended 30 June 2017.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Name

Qualifications, Experience and Special Responsibilities

Mr. Garry P Lowrey BBus MAppFin CA (Age 55) Independent Non-Executive Chairman. Appointed November 2015.

Mr. Lowrey has over 30 years of experience in a variety of advisory and management roles for both private and public companies. Earlier in his career, he was a Director of Potter Warburg's Corporate Finance team, specialising in providing capital markets and mergers and acquisitions advice to small and mid-market companies. Mr. Lowrey was the Managing Director of Wilson HTM Investment Group, an ASX listed wealth management and investment group. Mr. Lowrey served as an Executive Director of Shaw and Partners Limited and is presently an Executive Director of Greenwich Capital Partners and a non Executive Director of Argus Property Partners Pty Ltd. Mr. Lowrey holds a Bachelor of Business degree from the NSW University of Technology and a Masters of Applied Finance from Macquarie University. He is a chartered accountant. Mr. Lowrey was until June 2017 the Chairman of Oak Tree Group Limited, a company which develops and operates retirement villages along the east coast of Australia. Mr. Lowrey is a member of the Audit, Risk, Nomination & Remuneration and Corporate Governance committees. Mr. Lowrey has not served as a Director of any other listed companies during the three years prior to June 2017.

Mr. Constantinos L Liosatos MAICD (Age 55) Managing Director. Appointed April 2003.

Mr. Liosatos has over 30 years' experience in the construction industry, including 25 years in the lighting industry specialising in research and design. He also has 12 years' experience in the traffic industry. He has been involved with major design and manufacturing projects for clients such as MCG Lighting, Etihad Stadium, the Melbourne Sport and Aquatic Centre and the Vodafone Arena. He led the VicRoads LED Signals Upgrade, Hong Kong Highways Department (Bus and Roadway Interchange) Upgrade and the WA Main Roads LED Signals Upgrade. Mr. Liosatos has owned and managed a multinational project lighting company, Moonlighting Pty Ltd. Mr. Liosatos has qualifications in Mechanical Design and Lighting Engineering. Mr. Liosatos is Chairman of the ITS World Congress 2017 Sponsorship Committee and is active on Australian Standards AS 2144 and AS 1158. Mr. Liosatos is the Managing Director of Traffic Technologies Ltd. Mr. Liosatos was appointed a Director of Traffic Technologies Ltd in April 2003. Mr. Liosatos is a member of the Corporate Governance committee. Mr. Liosatos has not served as a Director of any other listed companies during the three years prior to June 2017.

Mr. Mark W Hardgrave B Com ACA MAICD (Age 59) Independent Non-Executive Director. Appointed January 2013.

Mr. Hardgrave has a corporate advisory and investment management background. Until recently he was a Director of M&A Partners, a Melbourne based private investment and corporate finance group. Earlier in his career he worked in senior roles in a number of investment groups including Brencorp Group, Merrill Lynch and the Thorney Investment Group. Mr. Hardgrave was previously Chief Executive Officer of Bennelong Group, which specialises in listed equities, property and private equity. Mr. Hardgrave holds a Bachelor of Commerce degree from the University of Queensland. He currently serves on the board of NFP group Reclink Australia. He is a chartered accountant and a member of the Australian Institute of Company Directors. Mr. Hardgrave is Chairman of the Audit, Risk, Nomination & Remuneration and Corporate Governance committees. Mr. Hardgrave has not served as a Director of any other listed companies during the three years prior to June 2017.

Skills and Experience

The following table shows the skills sets of each of the Board members:

	Garry Lowrey	Con Liosatos	Mark Hardgrave
Corporate Governance	\checkmark	✓	✓
Traffic Management & Infrastructure	✓	✓	
ASX Listed Companies	✓	✓	✓
Human Resources	✓	✓	✓
Legal	✓	✓	✓
Finance	✓	✓	✓
Commercial	✓	✓	✓
Manufacture/assembly		✓	
Government Contracts		✓	
Information Technology		✓	✓

The following Director also served on the Company's Board during the year and retired on 24 November 2016:

Mr. Ken Daley, M.Eng.Sci (Age 67) Independent Non-Executive Director. Appointed November 2014.

M.Eng.Sci (Transport) FIEAUST

Mr. Daley is the CEO of the Indiana Toll Road Concession Company and brings extensive background in the fields of traffic engineering and transport projects. Early in his career he was appointed to the Senior Executive Service in the Victorian Public Sector for agencies now part of VicRoads. He was thereafter Managing Director for the Victorian and South Australian branches of what is now Hyder Consultants where he led the establishment of the traffic and transport business. Mr. Daley was more recently President, International Development with Transurban where he was part of the leadership group and responsible for the delivery of major projects in the USA. While resident in the US, he was a Board member of the International Bridge, Tunnel and Turnpike Association, the worldwide representative group for toll agencies. Mr. Daley holds a Masters Degree of Engineering Science in Transportation from Monash University. He was awarded the William Young Alumnus Award in 2013 "For Exceptional Service to the Transport Industry" and in 2014 ITS Australia awarded him the Lifetime Achievement Award for "Significant Contribution to the ITS Industry". He is a Fellow of the Institution of Engineers, Australia. Mr. Daley was Chairman of the Corporate Governance Committee and was a member of the Audit & Risk and Nomination & Remuneration committees.

Company Secretary Mr. Peter K

Mr. Peter K Crafter LL.B (Hons.) MBA FCA CA MCT FAICD FCIS FGIA (Age 60) Company Secretary and Chief Financial Officer. Appointed Company Secretary March 2004; appointed Chief Financial Officer October 2007.

Mr. Crafter is a Chartered Accountant in both Australia and the UK and qualified Corporate Treasurer with extensive experience in financial management including several years with KPMG and Touche Ross in the United Kingdom. He holds an honours degree in Law from the University of London and an MBA from Heriot-Watt University, Scotland. He was appointed Chief Financial Officer and Company Secretary of Traffic Technologies Ltd in March 2004 and retired as Chief Financial Officer in February 2006. He was reappointed Chief Financial Officer of Traffic Technologies Ltd in October 2007.

SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

Shares held in Traffic Technologies Limited:

	Balance at	Acquired through	Sold		Balance at
	1 July 2016	On-Market Trade			30 June 2017
Directors					
Mr. Garry Lowrey	500,000	-		-	500,000
Mr. Con Liosatos	21,808,919	-		-	21,808,919
Mr. Mark Hardgrave	1,548,388	-		-	1,548,388
Mr. Ken Daley	-	-		-	-
Executive					
Mr. Peter Crafter	10,000	-		-	10,000
Total	23,867,307	-	·	-	23,867,307

DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2017 (2016: Nil).

OPERATING AND FINANCIAL REVIEW

Review of Operations

Traffic Technologies is Australia's premier traffic solutions company. Established in 2004 and listed on ASX in 2005, the Company's head office is in Eltham, Victoria with offices in all States of Australia and England.

The Group specialises in the design, manufacture and installation of traffic signals, traffic controllers, pedestrian countdown timers, electronic road signs, emergency telephones, portable roadside technology and road lighting products and provides a wide range of directional and regulatory traffic signs and traffic control products to road traffic authorities, municipal councils and construction companies.

The Group, through its subsidiary, Aldridge Traffic Systems, has been the major participant in the traffic signals market in Australia for 50 years where customers are mainly state road authorities or contractors building or maintaining traffic intersections for state road authorities. The Group exports its traffic signals and associated products such as pedestrian countdown timers and emergency telephones to an increasing number of international customers.

The Group, through its subsidiary, Quick Turn Circuits Pty Ltd (QTC), is involved in the manufacture of traffic controllers. A traffic controller is an automated device that regulates the sequencing and timing of traffic signals by monitoring vehicular and pedestrian demands and adjusting to meet these requirements. The controller has the ability to allow co-ordination of traffic flows between adjacent intersections when connected to a co-ordinated adaptive traffic system.

The Group is a key supplier to the road signage market through its seven offices across Australia. Customers include State Road Authorities, local councils and construction companies. The Group's Signage products are distributed from depots around Australia with manufacturing focused in Victoria, Western Australia and the Northern Territory.

A review of operations and financial position of the Group is contained in the Managing Director's Operating and Financial Review.

Material Business Risks

The material business risks faced by the Group that could have a significant impact on the financial prospects of the Group and how the Group manages these risks include:

- Changes in Federal or State government expenditure on road infrastructure the Group maintains regular contact with state road authorities to ensure that it can plan the resources required for major projects as far ahead as possible or allow for the deferral of major projects in times of economic slowdown.
- Adverse change in economic conditions affecting demand for the Group's products or services the Group plans as far ahead as possible to adjust its cost base in times of economic uncertainty.
- Technological obsolescence the Group works closely with road traffic authorities and incurs significant amounts of research and development expenditure to ensure that its products are state-of-the-art and competitive.
- Foreign exchange risk a decrease in the Australian dollar exchange rate can affect import prices: the Group purchases components from a number of Asian countries denominated in US dollars. Conversely, an increase in the Australian dollar exchange rate can affect export opportunities: the Group sells its products to a number of countries around the world.
- General inflation risk, including labour costs the Group constantly monitors its cost base and implements cost savings and operating efficiencies where possible.
- Availability of banking facilities the Group is reliant on the continued availability of its banking facilities in
 order to conduct its operations. The Group ensures compliance with its facility agreements and negotiates
 extensions to its banking facilities when required.
- Competition the Group maintains its competitive position by investing in research and development to ensure its products are state-of the-art and by ensuring its products are priced competitively.
- Cyber Security the Group has been addressing cyber security as part of its risk management strategy in the light of recent well-publicised breaches and increased risk in this area.
- Climate Change the Group is not significantly exposed to climate change issues unless a Carbon Tax is reintroduced. A significant number of the Group's products use LED technology which is energy saving and reduces greenhouse gas emissions.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the nature of the Group's activities during the year.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Subsequent to balance date there have been no significant events which have affected the operations of the Group.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory. There have been no significant known breaches of the Group's compliance with environmental regulations.

SHARE OPTIONS

As at the date of this report, there were no unissued ordinary shares of the Company under option.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

During the financial year ended 30 June 2017, the Group paid premiums of \$54,501 in respect of a Directors' and Officers' insurance policy insuring Directors and Officers in respect of claims which may be brought against them. The contract of insurance prohibits disclosure of the nature of the liability. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such by an officer or auditor.

REMUNERATION REPORT (AUDITED)

This Remuneration Report for the financial year ended 30 June 2017 outlines non-executive director and executive remuneration arrangements for Traffic Technologies Ltd (**Company**) in accordance with the requirements of the *Corporations Act* 2001 (*Cth*) (**Corporations Act**) and its Regulations.

For the purposes of this report, Key Management Personnel (**KMP**) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling all activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, the term 'executive' includes the Managing Director and the Chief Financial Officer.

The disclosures in this Remuneration Report have been audited.

1. Persons covered by this Remuneration Report

This Remuneration Report applies to the following persons.

- 1.1 Non-executive directors
- (a) Mr. Garry Lowrey, Independent Non-executive Chairman
- (b) Mr. Mark Hardgrave, Independent Non-executive Director
- (c) Mr. Ken Daley, Independent Non-executive Director (retired 24 November 2016)
- 1.2 Executives
- (a) Mr. Con Liosatos, Managing Director
- (b) Mr. Peter Crafter, Chief Financial Officer and Company Secretary

2. Overview of the Company's remuneration policy

The Company seeks to attract, retain and motivate skilled non-executive directors and executives of the highest calibre. The Company aims to ensure that the remuneration packages of non-executive directors and executives are appropriate and reflect a person's duties and responsibilities.

In this regard, the Company has put in place a Nomination & Remuneration Committee which supports and advises the Board in fulfilling its responsibilities to shareholders. The Nomination & Remuneration Committee is responsible for ensuring that the Board is appropriately remunerated, structured and comprised of individuals who are best able to discharge the responsibilities of directors.

The remuneration policy of the Company has been designed to align KMP objectives with shareholder and business objectives by providing a fixed remuneration component and offering incentives to reward sustainable long-term performance and shareholder value creation.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

3. Details of executive remuneration structure

3.1 Objective

The Company's objective is to ensure that executive remuneration is designed to promote sustainable long-term performance and shareholder value creation. In this regard, the Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- (a) reward executives for the Company's and individual performance;
- (b) align the interests of executives with those of shareholders;
- (c) link reward with the strategic goals and performance of the Company; and
- (d) ensure total remuneration is competitive by market standards.

3.2 Approach to setting remuneration

Remuneration levels are determined annually through a remuneration review that considers market data, remuneration trends, performance of the Company, individual responsibilities, individual performance and the broader economic environment.

(a) Fixed remuneration

The objective of fixed remuneration is to provide a base level of remuneration which is appropriate and reasonable given the executive's experience, qualifications, core duties and responsibilities. Additionally, an executive's remuneration is determined with reference to remuneration paid by similar sized companies in similar industry sectors.

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash, superannuation contributions and non-monetary benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

An executive's remuneration is reviewed annually by the Nomination & Remuneration Committee.

(b) Variable remuneration

Performance based components of an executive's remuneration seek to align the executive's reward with the achievement of the Company's long term objectives and the creation of shareholder value over the short and long term. The relevant performance based components are STI and LTI (as described below).

3.3 The current structure of executive remuneration

The STI arrangements are in place and are effective for the 2017 financial year; however it is important to note that, although the Company has operated an STI bonus arrangement for a number of years, for the financial years, 2013-17 the executive team have waived their entitlements to an STI.

For the financial years 2015-17, the Company's executive team have also voluntarily undertaken the following measures to reduce their Total Fixed Remuneration (TFR).

Mr. Con Liosatos (Managing Director):

- wage freeze (foregoing any CPI or like increase in his remuneration package) in 2015-17; and
- reduction of \$22,417 in 2015; and
- reduction of \$66,854 in 2016; and
- further reduction of \$461 in 2017.

Mr. Peter Crafter (Chief Financial Officer and Company Secretary):

- wage freeze (foregoing any CPI or like increase in his remuneration package) in 2015-17;
- reduction of \$3,784 in 2015;
- reduction of \$23,819 in 2016; and
- further reduction of \$7,776 in 2017.

The executive remuneration structure, including performance hurdles and performance targets, is outlined below:

(a) Combination of fixed and variable remuneration

Remuneration	Components	Purpose	Link to Performance
Total Fixed Remuneration (TFR)	Comprises base salary, non-monetary benefits, and superannuation contributions.	To provide competitive fixed remuneration taking account of the role, market, experience and performance.	Company and individual performance are assessed during the annual remuneration review.
Short term incentives (STIs)	The Company operates an STI at the discretion of the Board which is accessed based on the Company's performance above budget plan. Bonuses are paid in cash.	To reward executives for their contribution to achievement of Company outcomes according to specified KPI's.	Linked to achievement of operational targets and KPI's. Where actual financial performance exceeds budget plan by up to 100%, the Company makes payment of an STI bonus up to 20%.
Long term incentives (LTIs)	The Company operates an LTI at the discretion of the Board. Options are allotted in accordance with our LTI plan.	To reward executives for their contribution to the creation of shareholder value over the longer term.	The grant by the Company of the options will be dependent on the share price performance of the Company relative to the ASX 300 small ordinaries index. If the Company's share price performance exceeds the ASX 300 small ordinaries index for the relevant period, the LTI may be awarded for that financial year.

Subsequent to being gethe LTI options will of if the executive does a resign or is not termine cause within a two yether period (after the end of relevant financial year which the options are granted). The exercise of the options will be equivalent to the Company of the price on the last the relevant financial.	only vest not nated for ar of the r in he price
share price on the last the relevant financial	•

(b) Performance hurdles

Performance hurdles are thresholds which are required to be met for an executive's remuneration to vest.

(i) The following performance hurdles are used to determine whether variable remuneration vests for executives:

	STI Targets	LTI Targets
Managing Director	 10% of base salary if targeted EBIT is exceeded by 50%. 20% of base salary if targeted EBIT is exceeded by 100%. Targets are based on achievement of KPI's set annually by the Nomination & Remuneration Committee. A summary of the KPIs are outlined below. 	 10% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 10% for the relevant financial year. 20% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 25% for the relevant financial year. 40% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 50% for the relevant financial year.
Chief Financial Officer	 5% of base salary if targeted EBIT is exceeded by 50%. 10% of base salary if targeted EBIT is exceeded by 100%. Targets are based on achievement of KPI's set 	 5% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 10% for the relevant financial year. 10% of base salary if the Company's share price
	annually by the Nomination & Remuneration	performance exceeds the ASX 300 small ordinaries index by

Committee. A summary of the KPIs are outlined below.	25% for the relevant financial year.
• 10% of base salary paid according to KPI's set by the Board.	• 20% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 50% for the relevant financial year.

(ii) What are the KPIs and why were they chosen?

STIs

The Company has chosen Earnings before Interest and Tax (**EBIT**) as its STI performance measure. EBIT is a common operational performance measure used by many companies. The Board considers this financial measure to be appropriate as it is reflective of the performance of the Company and aligns the Company's objective of delivering profitable growth and, ultimately, improved shareholder returns.

LTIs

The Company has chosen its share price performance relative to the ASX 300 small ordinaries index as its LTI performance measure. This is an external, relative, market-based performance measure against competing companies. It provides a direct link between senior executive reward and returns to shareholders.

(iii) What is the performance period?

The performance hurdle for STI's are measured over a 12 month period. There will be no re-testing of performance hurdles.

The performance hurdle for LTI targets are measured over three years, being the relevant 12 month period and a requirement for the executive to remain with the Company for a further two years. There will be no re-testing of performance hurdles.

(iv) When are performance hurdles not considered to be met?

Performance hurdles will not be considered to be met where an executive achieves the performance hurdle as a result of an acquisition by the Company.

(c) Clawback

The Company has the ability to reduce, cancel or clawback performance based remuneration in the event of serious misconduct or material financial misstatement.

4. Details of Non-Executive remuneration structure

4.1 Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

4.2 Approach to setting remuneration

Each non-executive director receives a fixed fee for being a director and a fee for the additional time commitment made when serving as Chair. Non-executive Directors do not receive retirement benefits, other than statutory superannuation, nor do they participate in any incentive programs.

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. The notice convening a general meeting at which it is proposed to seek approval to increase that maximum aggregate sum must specify the proposed new maximum aggregate sum and the amount of the proposed increase. The latest determination was at the AGM held in 2005 when shareholders approved an aggregate remuneration of \$400,000 per year. The amount of remuneration paid to non-executive directors is reviewed annually against remuneration paid to non-executive directors of comparable companies. The board did not use external consultants during the financial year ended 30 June 2017.

It is considered good governance for Directors to have a stake in the Company on whose Board they sit. Non-executive Directors are encouraged to hold shares in the Company (purchased by the Director on market).

4.3 Non-executive Director Agreements

The non-executive Directors have entered into non-executive Director Agreements with the Company. The non-executive Director agreements:

- (a) entrench a Director's rights to be indemnified by the Company to the maximum extent permitted by law;
- (b) require the Company to take out an appropriate Directors' and officers' insurance policy to protect the Director from liability (to the extent permitted by law); and
- (c) provides the non-executive Director with access to the Company's books and records relating to the period the Director acted as a Director of the Company. After resignation as a Director, the Director can only use this information for the purposes of defending a claim.

5. Performance outcomes

5.1 Executives

(a) Managing Director – Mr. Con Liosatos

The Managing Director, Mr. Liosatos, is employed under a rolling employment contract. A summary of Mr. Liosatos' entitlements for the financial year ended 30 June 2017 is as follows:

- TFR for the financial year ended 30 June 2017 was \$532,190.
- No STI was awarded to Mr. Liosatos for the 2017 Financial Year.
- No LTI was awarded to Mr. Liosatos for the 2017 Financial Year.
- Employment may be terminated by the giving, by either party, of twelve months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from any monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.
- Further details of the executives' remuneration for the financial years ended 30 June 2016 and 30 June 2017 are included in the tables below.

(b) Chief Financial Officer – Mr. Peter Crafter

The Company Secretary and Chief Financial Officer, Mr. Peter Crafter, is employed under a rolling employment contract. A summary of Mr. Crafter's entitlements is as follows:

- TFR for the financial year ended 30 June 2017 was \$292,558.
- No STI was awarded to Mr. Crafter for the 2017 Financial Year.
- No LTI was awarded to Mr. Crafter for the 2017 Financial Year.
- Employment may be terminated by the giving, by either party, of twelve months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from any monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.
- Further details of the executives' remuneration for the financial years ended 30 June 2016 and 30 June 2017 are set out in the tables below.

(c) Performance against targets

No STI's or LTI's were awarded for the 2017 Financial Year.

5.2 Non-executive Directors

Details of non-executive Directors remuneration for the financial years ended 30 June 2016 and 30 June 2017 are set out in the tables below. The Company considers the non-executive Directors' remuneration to be reasonable taking into account their duties, responsibilities, market, experience and performance.

5.3 Company Performance and Shareholder Returns

	2017	2016	2015	2014	2013
Net profit/(loss) \$'000)	\$1,011	(\$22,250)	\$420	(\$1,172)	\$3,092
EPS (cents)	0.37	(8.07)	0.15	(0.49)	1.74
Share price (cents)	3.6	2.6	3.9	5.6	5.6

Management remuneration is not related to the Company's performance and shareholder returns except to the extent disclosed above.

TABLE 1: REMUNERATION OF KEY MANAGEMENT PERSONNEL – YEAR TO 30 JUNE 2016

	Short-term benefits		Post-employment benefits Termination Benefits	Long-term benefits	Share based payments	Total			
	Salary & fees	Non-monetary \$	Cash Bonus \$	Superannuation	\$	Long service leave \$	Options \$	\$	% performance related
Year to 30 June 2016									
Key Management Personnel									
Non-executive Directors									
Mr. Garry Lowrey (from 24 Nov 2015)	65,483	-	-	6,221	-	-	-	71,704	-
Mr. Alan Brown (retired 28 June 2016)	78,185	-	-	7,428	-	-	-	85,613	-
Mr. Mark Hardgrave	57,750	-	-	5,486	-	-	-	63,236	-
Mr. Ken Daley	57,750	-	-	5,486	-	-	-	63,236	-
Sub-total non-executive Directors	259,168	-	-	24,621	-	-	-	283,789	-
Executives									·
Mr. Con Liosatos	473,025	14,870	-	44,937	-	9,055	-	541,887	-
Mr. Peter Crafter	247,921	28,807	-	23,552	-	5,326	-	305,606	-
·	720,946	43,677	-	68,489	-	14,381	-	847,493	-
Total	980,114	43,677	=	93,110	-	14,381	-	1,131,282	-

TABLE 2: REMUNERATION OF KEY MANAGEMENT PERSONNEL – YEAR TO 30 JUNE 2017

	Short-term benefits		Post-employment benefits	Termination Benefits	Long-term benefits	Share based payments	Total		
	Salary & fees	Non-monetary \$	Cash Bonus \$	Superannuation \$	\$	Long service leave \$	Options \$	\$	% performance related
Year to 30 June 2017									
Key Management Personnel									
Non-executive Directors									
Mr. Garry Lowrey	108,674	-	-	10,324	-	-	-	118,998	-
Mr. Mark Hardgrave	57,750	-	-	5,486	-	-	-	63,236	-
Mr. Ken Daley (retired 24 Nov 2016)	24,063	-	-	2,286	-	-	-	26,349	-
Sub-total non-executive Directors	190,487	-	-	18,096	-	-	-	208,583	-
Executives									
Mr. Con Liosatos	473,025	14,228	-	44,937	-	9,236	-	541,426	-
Mr. Peter Crafter	247,921	21,085	-	23,552	-	5,272	-	297,830	-
	720,946	35,313	-	68,489	-	14,508	-	839,256	-
Total	911,433	35,313	-	86,585	-	14,508	-	1,047,839	-

END OF AUDITED REMUNERATION REPORT

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director was as follows:

	Directors' Meetings		Audit Committee		Risk Committee		Nomination & Remuneration Committee		Corporate Governance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr. Garry Lowrey	12	12	2	2	2	2	1	1	2	2
Mr. Con Liosatos	12	12	2	2	2	2	1	1	2	2
Mr. Mark Hardgrave	12	12	2	2	2	2	1	1	2	2
Mr. Ken Daley	4	3	1	1	-	-	_	_	1	1

BOARD COMMITTEES

As at the date of this report the Company had an Audit Committee, a Nomination & Remuneration Committee, a Corporate Governance Committee and a Risk Committee of the Board of Directors. The eligibility and attendance of each of the Directors is disclosed in the table above. The chairman of each committee was:

- Audit Mr. Mark Hardgrave
- Nomination & Remuneration Mr. Mark Hardgrave
- Corporate Governance Mr. Mark Hardgrave
- Risk Mr. Mark Hardgrave

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Instrument applies.

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided immediately following this report.

Signed in accordance with a resolution of the Directors.

Mr. Garry Lowrey

Independent Non-Executive Chairman

30 August 2017

Melbourne



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Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Traffic Technologies Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017 there have been:

- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.

SHINEWING AUSTRALIA Chartered Accountants

Rami Eltchelebi Partner

Melbourne, 30 August 2017

Traffic Technologies Ltd Corporate Governance Statement

The Board and management of Traffic Technologies Ltd are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) (**Recommendations**) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed and provides reasons for not following such Recommendations (**Corporate Governance Statement**).

The Corporate Governance Statement is accurate and up to date as at 30 August 2017 and has been approved by the Board.

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement is available for review on the Company's website (www.trafficltd.com.au) and will be lodged together with an Appendix 4G at the same time that this Annual Report is lodged with ASX.

Appendix 4G identifies each Recommendation that needs to be reported against by the Company and provides shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on the Company's website (www.trafficltd.com.au).

Traffic Technologies Ltd and Controlled Entities Consolidated Statement of Profit or Loss and Other Comprehensive Income For the year ended 30 June 2017

	Note	Consolida	nted	
	11000	2017	2016	
		\$'000	\$'000	
Revenue	2a	48,853	44,010	
Other income	2b	344	92	
Changes in inventories of finished goods and work in progress		2,829	(174)	
Raw materials and consumables used		(30,942)	(23,884)	
Employee benefits expense	3a	(12,962)	(13,564)	
Occupancy costs		(1,872)	(1,933)	
Advertising and marketing expense		(210)	(81)	
Other expenses	3b	(1,489)	(1,899)	
Depreciation, amortisation and impairment expense		(1,872)	(22,054)	
Earnings before interest and tax (EBIT)		2,679	(19,487)	
Finance costs	3c	(1,457)	(1,552)	
Net profit/(loss) for the year before income tax		1,222	(21,039)	
Income tax expense	4a	(211)	(1,211)	
Net profit/(loss) for the year		1,011	(22,250)	
Other comprehensive income for the year, net of tax		-	-	
Total comprehensive income for the year		1,011	(22,250)	
Earnings/(loss) per share		Cents	Cents	
Basic (cents per share)Diluted (cents per share)	5 5	0.37 0.37	(8.07) (8.07)	

The Consolidated Statement of Profit or Loss and Comprehensive Income should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd and Controlled Entities Consolidated Statement of Financial Position As at 30 June 2017

	Note	Consolida	dated	
		2017 \$'000	2016 \$'000	
Current Assets				
Cash and cash equivalents		660	1,186	
Trade and other receivables	6	10,236	11,764	
Inventories	7	13,210	10,381	
Total Current Assets		24,106	23,331	
Non-Current Assets				
Property, plant and equipment	8	1,265	1,690	
Goodwill	9	10,554	10,554	
Intangible assets	9	7,229	6,832	
Other financial assets		-	2	
Deferred tax assets	4c	145	351	
Total Non-Current Assets		19,193	19,429	
TOTAL ASSETS		43,299	42,760	
Current Liabilities				
Trade and other payables	10	10,298	8,662	
Interest bearing loans and borrowings	11	5,062	7,056	
Provisions	12	2,388	2,337	
Total Current Liabilities		17,748	18,055	
Non-Current Liabilities				
Interest bearing loans and borrowings	11	17,354	17,560	
Provisions	12	98	57	
Total Non-Current Liabilities		17,452	17,617	
TOTAL LIABILITIES		35,200	35,672	
NET ASSETS		8,099	7,088	
Equity			_	
Contributed equity	13	49,029	49,029	
Accumulated losses		(41,930)	(42,941)	
Share-based payments reserve		1,000	1,000	
TOTAL EQUITY		8,099	7,088	

The Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd and Controlled Entities Consolidated Statement of Changes in Equity For the year ended 30 June 2017

	Note	Ordinary Shares	Share based payments Reserve	Accumulated Losses	Total
CONSOLIDATED		\$'000	\$'000	\$'000	\$'000
At 1 July 2015		49,029	1,000	(20,691)	29,338
Loss for the year Other comprehensive income Total comprehensive income for the year			- -	(22,250)	(22,250)
At 30 June 2016		49,029	1,000	(42,941)	7,088
Profit for the year Other comprehensive income		-	-	1,011	1,011 -
Total comprehensive income for the year		-	-	1,011	1,011
At 30 June 2017		49,029	1,000	(41,930)	8,099

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements

Traffic Technologies Ltd and Controlled Entities Consolidated Statement of Cash Flows For the year ended 30 June 2017

	Note		Consolidated		
		2017 Inflows / (Outflows) \$'000	2016 Inflows / (Outflows) \$'000		
Cash flows from operating activities Receipts from customers		55,648	45,489		
Payments to suppliers and employees		(50,670)	(43,555)		
Interest paid		(1,331)	(1,342)		
Income tax paid		(5)	(6)		
Net cash provided by operating activities	16	3,642	586		
Cash flows from investing activities					
Proceeds from disposal of plant and equipment		- (4 ==0)	41		
Payment of development costs		(1,558)	(1,674)		
Purchase of property, plant and equipment Purchase of intangible assets		(42) (192)	(139) (203)		
Net cash used in investing activities		(1,792)	(1,975)		
Cash flows from financing activities					
Proceeds from borrowings		_	2,278		
Repayment of borrowings		(2,376)	(583)		
Payment of finance facility fees		-	(130)		
Net cash provided by/(used in) financing activities		(2,376)	1,565		
Net increase/(decrease) in cash and cash equivalents		(526)	176		
Cash and cash equivalents at beginning of the financial year	r	1,186	1,010		
Cash and cash equivalents at end of the financial year		660	1,186		

The Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

The financial report of Traffic Technologies Ltd (the Company) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 30 August 2017. The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

This financial report is a general purpose financial report that has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and AASB Interpretations. The consolidated financial statements of Traffic Technologies Ltd and its subsidiaries also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The financial report has been prepared on an accruals basis and under the historical cost convention. The financial report covers Traffic Technologies Ltd and its subsidiaries (the Group). Traffic Technologies Ltd is a for profit Australian listed public company limited by shares, incorporated and domiciled in Australia. The nature and operations and principal activities of the Group are described in the Directors' Report. The following is a summary of material accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Rounding

The amounts contained in the financial report have been rounded to the nearest thousand dollars (\$'000) (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Instrument applies.

b) New Accounting Standards for Application in Future Periods

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).
 - AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and includes revised requirements for the classification and measurement of financial instruments, revised recognition and de-recognition requirements for financial instruments, revised impairment requirements and simplified requirements for hedge accounting.

The revised requirements include:

- simplifications to the classification of financial assets
- simplifications to the accounting of embedded derivatives
- an expected loss impairment model
- the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income.
- a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items.

The financial assets and liabilities of the Group consist of cash, receivables and payables. Therefore, the directors do not expect a material impact on transition to AASB 9, given the size of bad debt write-offs in the past.

 AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018)

This Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The directors have made a preliminary/detailed assessment of the impact.

The revenue of the Group is mainly derived from sale of goods on short term contracts. Therefore, the directors expect that there will be no material impact on transition to AASB 15.

AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).
 AASB 16 will replace the current accounting requirements applicable to leases in AASB 117:
 Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The directors expect that the adoption of AASB 16 will result in lease assets and liabilities being recognised on balance sheet and a change in how related expenses are incurred. The financial impact of this has not yet been determined.

 AASB 2014-10: Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (applicable to annual reporting periods beginning on or after 1 January 2018).

This Standard amends AASB 10: Consolidated Financial Statements with regards to a parent losing control over a subsidiary that is not a "business" as defined in AASB 3: Business Combinations to an associate or joint venture, and requires that:

- a gain or loss (including any amounts in other comprehensive income (OCI)) be recognised only to the extent of the unrelated investor's interest in that associate or joint venture;
- the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and
- any gain or loss from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor's interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment.

The application of AASB 2014-10 will result in a change in accounting policies for transactions of loss of control over subsidiaries (involving an associate or joint venture) that are businesses per AASB 3 for which gains or losses were previously recognised only to the extent of the unrelated investor's interest.

The directors do not expect a material impact when this standard is adopted.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has adopted all new, revised and amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have a significant impact on the financial performance or position of the Group.

c) Basis of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Traffic Technologies Ltd) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group. Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and other factors it believes to be reasonable under the circumstances.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Significant accounting judgements

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product and service delivery expectations. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

Capitalised development costs

Development costs are only capitalised by the Group when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation.

Significant accounting estimates and assumptions

Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through inflation and promotion have been taken into account. The Group's obligations towards long service leave liabilities are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Allowance for impairment loss on receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of recovery of these receivables is assessed by management. Debts that are considered to be uncollectible are written off when identified.

Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historical experience (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of assets is assessed at least once a year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Any change in the useful life or residual lives is treated as a change in accounting estimate and recognised in the statement of comprehensive income.

Maintenance warranties

In determining the level of the provision required for warranties, the Group has made judgements in respect of the expected performance of the products and any liability resulting from installation works. Historical experience and current knowledge of the performance of products has been used in determining this provision.

e) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed, cessation of all involvement in those goods and generally title has passed (for shipped goods this is the bill of lading date).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rendering of services

Revenue is recognised by reference to the stage of completion of a contract. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised as an integral part of the total lease expense.

g) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

h) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group may not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90-120 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the difference between the receivables carrying amount and the present value of its estimated future cash flows, discounted at the original effective interest rate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Inventories

Inventories including raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials and volume discounts and rebates.
- Finished goods and work-in-progress cost of direct materials and labour and a proportion of variable
 and fixed manufacturing overheads based on normal operating capacity but excluding borrowing
 costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

j) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current income tax expense charged to profit or loss is the tax payable on taxable income.

Deferred income tax assets are recognised for all deductible temporary differences, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Traffic Technologies Limited and its wholly owned Australian resident entities formed a tax-consolidated Group with effect from 1 July 2005 and are taxed as a single entity from that date. The head entity of the tax-consolidated Group is Traffic Technologies Limited.

The Company has entered into a tax funding agreement that sets out its funding obligations of the tax consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding agreement and reflect the timing of the head entity's obligation to make payments for the tax liabilities to the relevant taxation authority.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to (or receivable from) other entities in the tax consolidated group under the tax funding agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation
 authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part
 of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

1) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

	2017	2016
Plant and equipment	1 to 15 years	1 to 15 years
Plant and equipment under finance lease	1 to 15 years	1 to 15 years
Office furniture and fittings	4 to 10 years	4 to 10 years
Office furniture and fittings under finance lease	4 to 10 years	4 to 10 years
Motor vehicles	8 years	8 years
Motor vehicles under finance lease	8 years	8 years
Buildings	40 years	40 years
Leasehold improvements	10 years	10 years

m) Goodwill

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Impairment of goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with AASB 8 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates.

The Group performs impairment testing as at 30 June each year using a value in use, discounted cash flow methodology for its cash-generating units to which goodwill has been allocated. Impairment testing may be performed at other dates where an indicator of impairment exists.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

o) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure so capitalised is amortised over the period of expected benefit from the related project which is generally 5 years (2016: 5 years). The amortisation is recognised in the statement of comprehensive income in the line item 'depreciation, amortisation and impairment expense'.

Type approval certification

Type approval certification internally generated or acquired in a business combination is carried at cost less accumulated amortisation and accumulated impairment losses and is amortised using the straight line method over a period of 5 years (2016: 5 years). Type approval certification represents the Group's 'licence' to sell its light-emitting diode ("LED") traffic light signals and other products.

Software costs

Software costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Purchased software development is assessed to have a finite life and is amortised over a period of 1-4 years (2016: 1-4 years).

Patents and trademarks

Patents and trademarks acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Patents and trademarks are amortised on a straight line basis over a period of 3-10 years (2016: 3-10 years).

Brand names

Brand names are carried at cost less any accumulated amortisation and any accumulated impairment losses. Brand names acquired in business combinations are assessed to have a finite life and are amortised over a period of 10 years (2016: 10 years).

p) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life and those that are not yet available for use are not subject to amortisation but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

q) Trade and other payables

Trade and other payables are carried at amortised cost due to their short term nature and are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

r) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

t) Employee benefits

Short-term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

u) Foreign currency translation

(i) Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements, are presented in Australian dollars, which is the functional and presentation currency of the Group.

(ii) Transactions & balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

v) Contributed equity

Ordinary Shares

Ordinary shares are classified as contributed equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

w) Earnings per share

Basic earnings per share is calculated as net profit/loss attributable to members of the parent entity, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit/loss attributable to members of the parent entity, adjusted for non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

x) Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through the statement of comprehensive income. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in the statement of comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

y) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors. Operating segments have been identified based on the information provided to the chief operating decision maker. The Group aggregates two or more operating segments when they have similar economic characteristics and the segments are similar in each of the following respects:

- Nature of the products and services;
- Nature of the production processes;
- Type or class of customer for the products and services;
- Methods used to distribute the products or provide the services; and
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements. Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

z) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost. Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss. The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

Financial Liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

2.	REVENUES
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(a) Revenue	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Sale of goods	48,853	44,010
-	48,853	44,010
(b) Other income		
Net gain on disposal of fixed assets	-	41
Other income	344	51
Total other income	344	92

3. EXPENSES

(a) Employee related expenses	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Wages and salaries	9,258	9,561
Superannuation (defined contribution)	934	985
Other employee benefits expense	2,770	3,018
	12,962	13,564
(b) Other expenses		
Administrative costs	1,319	1,609
Public company costs	170	290
	1,489	1,899
(c) Finance costs		
Amortisation of capitalised transaction costs	127	210
Bank loans and overdrafts	1,159	1,298
Lease interest	27	26
Other	144	18
Total finance costs	1,457	1,552
(d) Research and development costs Research and development costs charged directly to cost of sales in profit or loss	9	86

4. INCOME TAX

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
(a) Income tax expense		
The major components of income tax expense are:		
Statement of Comprehensive Income		
Current income tax		
Current income tax charge	5	7
Deferred income tax		
Relating to origination and reversal of temporary differences	206	1,204
Income tax expense reported in the statement of comprehensive		
income	211	1,211
recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate		
Accounting profit / (loss) before income tax	1,222	(24.020)
		(21,039)
		(21,039)
Prima facie income tax expense / (benefit) at the Group's statutory income tax rate of 30% (2016: 30%)	367	(6,312)
Prima facie income tax expense / (benefit) at the Group's statutory	367	, , ,
Prima facie income tax expense / (benefit) at the Group's statutory income tax rate of 30% (2016: 30%) Non deductible expense – goodwill impairment	367	(6,312)
Prima facie income tax expense / (benefit) at the Group's statutory income tax rate of 30% (2016: 30%)	367	(6,312) 6,000
Prima facie income tax expense / (benefit) at the Group's statutory income tax rate of 30% (2016: 30%) Non deductible expense – goodwill impairment Derecognition of losses previously recognised	367 - - - 5	(6,312) 6,000 1,408
Prima facie income tax expense / (benefit) at the Group's statutory income tax rate of 30% (2016: 30%) Non deductible expense – goodwill impairment Derecognition of losses previously recognised Derecognition of current year losses	:	(6,312) 6,000 1,408 108

(c) Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

` ,	Balance at 1 July 2016	Charged/ (credited) to	Balance at 30 June 2017
	\$'000	income \$'000	\$'000
Temporary differences			
Intangible assets	(760)	(94)	(854)
Employee provisions	760	38	798
Warranty provisions	23	(11)	12
Doubtful debts	46	(46)	-
Credit notes	15	(3)	12
Foreign exchange	16	(15)	1
Other capital expenditure	177	(60)	117
Other accruals and provisions	74	(15)	59
- -	351	(206)	145

4. INCOME TAX (continued)

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
The following tax losses have not been recognised as a deferred tax		
asset:		
Tax losses – revenue	2,431	2,705
Tax losses – capital	-	-
Carried forward tax offsets	1,497	1,006
Total deferred tax assets	3,928	3,711

Tax losses – revenue are available to carry forward against future revenue-related profits (but not against capital related profits) without expiry.

(d) Tax consolidation

Traffic Technologies Ltd and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2005 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Traffic Technologies Ltd. Each wholly owned subsidiary of Traffic Technologies Ltd is a member of the tax consolidated group, as identified at note 18.

5. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

(a) Earnings used in calculating earnings per share	Consolidated 2017 \$'000	Consolidated 2016 \$'000
For basic and diluted earnings per share:		
Net profit/(loss) attributable to ordinary equity holders of the parent	1,011	(22,250)
(b) Weighted average number of shares	Consolidated 2017 Thousands	Consolidated 2016 Thousands
Weighted average number of ordinary shares used in calculating basic earnings per share	275,557	275,557
Weighted average number of ordinary shares adjusted for the effect of dilution	275,557	275,557

There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute earnings per share in the future because they are anti-dilutive for 2017 (2016: nil). There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

6. TRADE AND OTHER RECEIVABLES

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Trade receivables	8,237	10,555
Allowance for impairment loss (a)	(9)	(155)
	8,228	10,400
Prepayments	1,188	806
Other receivables	820	558
	10,236	11,764

(a) Allowance for impairment loss - trade receivables

Trade receivables are non-interest bearing, are generally on 30 day terms and can vary depending on any individual contract. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. A net impairment loss of \$9,000 (2016: \$155,000) has been recognised by the Group. This amount has been included in the administration costs line item within other expenses. The amount of the allowance for impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

Movements in the allowance for impairment loss were as follows:	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Balance at the beginning of the year	155	10
Charge for the year	9	155
Amounts recovered during the year	-	-
Amounts written off as uncollectible	(155)	(10)
Balance at the end of the year	9	155

At 30 June, the ageing analysis of trade receivables was as follows:

		TOTAL	Not past due \$'000	1 – 30 days PDNI* \$'000	1 – 30 days CI* \$'000	31 – 60 days PDNI* \$'000	31 – 60 Days CI* \$'000	+ 61 days PDNI* \$'000	+ 61 Days CI* \$'000
2017 2016	Group Group	8,237 10,555	5,655 5,705	2,062 3,023	<u>-</u>	282 1,128	<u>-</u>	229 544	9 155

* - Table Legend

- Past due not impaired (PDNI)
- Considered impaired (CI)

Receivables past due but not considered impaired are: Group \$2,573,000 (2016: \$4,695,000). Payment terms on these amounts have not been renegotiated; however credit has been stopped until full payment is made. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

6. TRADE AND OTHER RECEIVABLES (continued)

(b) Fair value and credit risk

Due to the short term nature of trade and other receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

(c) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 14.

7. INVENTORIES (Current)

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Raw materials Work in progress	6,090 685	4,893 211
Work in progress Finished goods	6,435	5,277
	13,210	10,381

Inventory write-downs recognised as an expense totalled \$Nil (2016: \$Nil) for the Group. During the year, inventory write-downs of \$50,000 were reversed following the disposal of associated aged/impaired inventory (2016: \$Nil). This benefit is included in the statement of comprehensive income in changes in inventories of finished goods and work in progress.

8. PROPERTY, PLANT AND EQUIPMENT Consolidated Consolidated 2017 2016 \$'000 \$'000 a) Carrying values Plant and equipment: 4,827 4,792 At cost Accumulated depreciation* (4,328)(4,062)Total plant and equipment 499 730 Plant and equipment under lease: At cost 445 396 Accumulated depreciation* (292)(239)Total plant and equipment 153 157 Office furniture and fittings 1,189 1,180 At cost Accumulated depreciation* (1,078)(1,121)Total office furniture and fittings 68 102 Office furniture and fittings under lease 137 137 At cost Accumulated depreciation* (122)(108)Total office furniture and fittings 15 29 Motor vehicles At cost 229 307 Accumulated depreciation* (224)(292)Total motor vehicles 5 15 Motor vehicles under lease 680 759 At cost Accumulated depreciation* (380)(369)Total motor vehicles under lease 300 390 **Buildings** 208 208 At cost Accumulated depreciation (100)(91) Total land and buildings 108 117 Leasehold improvements 875 875 At cost Accumulated depreciation* (758)(725)Total leasehold improvements 117 150 Total property, plant and equipment 8,654 At cost 8,590 Accumulated depreciation (7,325)(6,964)Total net book value 1,265 1,690

8. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Reconciliation of carrying amounts at the beginning and end of period

CONSOLIDATED	Plant & Equipment	Plant & Equipment under lease \$'000	Office Furniture \$'000	Office Furniture under lease \$'000	Motor vehicles \$'000	Motor vehicles under lease \$'000	Buildings \$'000	Leasehold improvements \$'000	Total \$'000
Year ended 30 June 2017									
Balance at the beginning of the year,									
net of accumulated depreciation	730	157	102	29	15	390	117	150	1,690
Additions	38	49	5	-	-	-	-	-	92
Depreciation expense	(269)	(53)	(39)	(14)	(10)	(90)	(9)	(33)	(517)
Balance at the end of the year, net of									
accumulated depreciation	499	153	68	15	5	300	108	117	1,265
Year ended 30 June 2016									
Balance at the beginning of the year,									
net of accumulated depreciation	891	78	143	51	23	361	126	188	1,861
Additions	124	157	14	-	-	97	-	-	392
Depreciation expense	(285)	(78)	(55)	(22)	(8)	(68)	(9)	(38)	(563)
Balance at the end of the year, net of									
accumulated depreciation	730	157	102	29	15	390	117	150	1,690

8. PROPERTY, PLANT AND EQUIPMENT (continued)

c) Property, plant and equipment pledged as security for liabilities

Leased assets are pledged as security for the related finance lease liabilities.

The Group's property, plant and equipment is pledged as security against the borrowings with Westpac Banking Corporation as disclosed in note 11.

9. GOODWILL AND INTANGIBLE ASSETS

a) Carrying values

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Development costs		0.00
At cost	8,876	8,298
Accumulated amortisation	(3,843)	(3,233)
Accumulated impairment	(400)	(400)
	4,633	4,665
Type Approval Certification		
At cost	7,453	6,473
Accumulated amortisation	(4,903)	(4,479)
	2,550	1,994
Software costs	4 204	1.207
At cost	1,391	1,207
Accumulated amortisation	(1,378)	(1,132)
	13	75
Patents and trademarks	420	12.1
At cost	438	434
Accumulated amortisation	(405)	(376)
D 1	33	58
Brand names	4==	477
At cost	477	477
Accumulated amortisation	(477)	(437)
	-	40
Goodwill	22.042	22.042
At cost	33,042	33,042
Accumulated impairment	(22,488)	(22,488)
Total intercibles	10,554	10,554
Total intangibles	51 <i>477</i>	40.021
At cost Accumulated amortisation*	51,677	49,931 (32,545)
Total net book value	(33,894)	17,386
TOTAL HEL DOOK VALUE	17,783	17,380

^{* -} Includes impairment

9. GOODWILL AND INTANGIBLE ASSETS (continued)

b) Reconciliation of carrying amounts at the beginning and end of period

CONSOLIDATED	Development Costs	Type Approval	Software Costs	Patents and Trademarks	Brands	Goodwill	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2016 net book value	4,665	1,994	75	58	40	10,554	17,386
Additions	578	980	190	4	-	· -	1,752
Amortisation	(610)	(424)	(252)	(29)	(40)	-	(1,355)
At 30 June 2017 net book value	4,633	2,550	13	33	-	10,554	17,783
At 1 July 2015 net book value	4,260	1,834	177	89	86	30,554	37,000
Additions	1,049	625	176	27	-	-	1,877
Amortisation	(644)	(465)	(278)	(58)	(46)	-	(1,491)
Impairment	- -	-	-	-	-	(20,000)	(20,000)
At 30 June 2016 net book value	4,665	1,994	75	58	40	10,554	17,386

9. GOODWILL AND INTANGIBLE ASSETS (continued)

c) Impairment tests for goodwill

(i) Description of the cash-generating units and other relevant information

Goodwill acquired through business combinations has been allocated to the Signals and Controllers cash-generating units.

(ii) Key assumptions used in value in use calculations for the Signals and Controllers cash-generating units at 30 June 2017 and 30 June 2016

The recoverable amounts of the Signals and Controllers cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets prepared by management covering a five year period.

The cash flows have been extrapolated using the expected growth rate of 5% for the Signals and Controllers cash-generating units (2016: 5%).

The Group believes that the growth rate selected is justified based on expected growth in demand over the next five years in line with government projections. The growth rate used to extrapolate the cash flows for periods beyond the five year period is 3% (2016: 3%).

It has been assumed that the current market share achieved by the Group will be maintained and that the budgeted growth rate will be achieved through expected growth in market demand.

The pre-tax discount rate applied to the cash flow projections is 13% (2016: 9.5%), which is the Group's WACC.

The key assumptions used in the value in use calculations represent management's best estimates at 30 June 2017. Management has considered the sensitivity of the value in use calculations to changes in assumptions and does not believe there are reasonably possible changes in the key assumptions which would cause the carrying value of the unit to materially exceed its recoverable amount.

(iii) Impairment testing

The Group performed its annual impairment test at 30 June 2017 and 30 June 2016. As at 30 June 2016, the market capitalisation of the Group was significantly below the book value of its equity, indicating a potential impairment of goodwill. Given the disappointing result for the financial year ended 30 June 2016 and the continued uncertain economic climate, the Group considered it prudent to record an impairment provision of \$20m against the value of goodwill in the Signals cashgenerating unit. There is no impairment of goodwill allocated to the Controllers cash-generating unit.

(iv) Carrying amount of goodwill allocated to the cash-generating unit

	Consolidated	Consolidated
	2017	2016
	\$'000	\$'000
Signals	30,535	30,535
Less: Impairment provision	(20,000)	(20,000)
	10,535	10,535
Controllers	19	19
Total	10,554	10,554

10. TRADE AND OTHER PAYABLES

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Current		
Trade creditors (i)	7,453	6,355
Sundry creditors and accruals (ii)	2,704	2,047
Deferred income	141	260
Current trade and other payables	10,298	8,662

(i) Trade creditors

Trade payables are non-interest bearing and are normally settled on 60 day terms.

(ii) Sundry creditors and accruals

Current

Current sundry creditors and accruals are non-trade payables, non-interest bearing and have an average term of 3 months.

(iii) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(iv) Interest rate, foreign exchange and liquidity risk

Information regarding the effective interest rate, foreign exchange and liquidity risk exposure is set out in note 14.

11. INTEREST BEARING LOANS AND BORROWINGS

	Nominal interest rate	Year of maturity	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Current borrowings				
Term bank facility (secured) (i)	BBR + 4.25%	2018	300	-
Working capital facility (secured) (ii)	BBR + 3.0%	2018	4,650	4,650
Bank overdraft	BBR + 3.0%	2018	22	2,278
Lease liabilities	2.1% - 8.2%	2017-2018	90	128
			5,062	7,056
Non-current borrowings				
Term bank facility (secured) (i)	BBR + 4.25%	2018	17,150	17,323
Lease liabilities	2.1% - 8.2%	2018-2020	204	237
			17,354	17,560

All loans are denominated in Australian dollars. The carrying amount of the Group's current and non-current borrowings approximates their fair value.

Reconciliation of term bank facility Term bank facility balance comprises:	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Term bank facility – principal loan amounts payable	17,450	17,450
Less: capitalised transaction costs		(127)
	17,450	17,323
Financing facilities available		
	Consolidated	Consolidated
	2017	2016
	\$'000	\$'000
Total facilities at reporting date	\$ 000	\$ 000
Term facility	17,450	17,450
Working capital facility comprising:	17,450	17,130
- revolving cash advance facility	4,650	4,650
- bank overdraft facility	3,150	2,550
- bank guarantee facility	200	200
cum gunumo momo	25,450	24,850
		2.,000
Facilities used at reporting date		
Term facility	17,450	17,450
Working capital facility comprising:		
- revolving cash advance facility	4,650	4,650
- bank overdraft facility	22	2,278
- bank guarantee facility	165	173
	22,287	24,551
Facilities unused at reporting date		
Term facility	-	_
Working capital facility comprising:		
- revolving cash advance facility	-	-
- bank overdraft facility	3,128	272
- bank guarantee facility	35	27
· ·	3,163	299

11. INTEREST BEARING LOANS AND BORROWINGS (continued)

Terms and conditions relating to the above financial instruments

(i) Term Facility

The term facility has been extended for repayment on 1 November 2018 and has been presented as non-current in accordance with AASB 101 *Presentation of Financial Statements*. The term facility is secured by fixed and floating charges over the total assets of the Group.

(ii) Working Capital Facility

The working capital facility comprises a bank overdraft facility, a bank guarantee commitment and a revolving cash advance facility. The facility has been extended for repayment on 1 November 2018 and has been presented as current in accordance with the economic substance of a working capital facility. The working capital facility is secured by fixed and floating charges over the total assets of the Group.

- (iii) Information regarding the effective interest rate risk of borrowings is set out in note 14.
- (iv) During the current and prior financial year, there were no defaults or breaches on any of the loans.

12. PROVISIONS

(a) Movements in Provisions

Movements in each class of provisions during the financial year are set out below:

	Warranties	Warranties Employee Benefits	
	\$000	\$000	\$000
Consolidated Group			
Opening balance at 1 July 2016	75	2,319	2,394
Additional provisions	-	923	923
Amounts used	-	(795)	(795)
Unused amounts reversed	(36)	-	(36)
Balance at 30 June 2017	39	2,447	2,486

(b) Provision for Warranties

A provision has been recognised for expected warranty claims on products supplied by the Group, based on current sales levels, current information available about past returns and repairs and the warranty period for products sold. The provision for warranty claims represents the present value of the Directors' best estimate of the future outflow of economic benefits that will be required under warranties offered for products supplied by the Group.

Based on past experience, the Group does not expect the full balance of the current provision to be settled within 12 months. However, as the Group does not have an unconditional right of deferral, the balance is presented as current.

13. CONTRIBUTED EQUITY

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Ordinary shares	49,029	49,029
	49,029	49,029
	No. Of Shares '000	\$ '000
a) Ordinary shares		
At 1 July 2015	275,557	49,029
At 30 June 2016	275,557	49,029
At 30 June 2017	275,557	49,029

b) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

b) Capital risk management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The Group's overall strategy remains unchanged from 2016. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses. Operating cash flows are used to maintain and expand the Group's manufacturing and distribution assets, as well as to make the routine outflows of tax and repayment of maturing debt. The Group's policy is to borrow centrally through the parent entity, using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

c) Gearing ratio

The Directors review the capital structure on a monthly basis. As a part of this review the Board considers the cost of capital and risks associated with each class of capital. The Group will balance its overall capital structure through new share issues and the redemption of existing debt, as market conditions allow. The Group is not subject to any externally imposed capital requirements. The gearing ratios at 30 June 2017 and 2016 were as follows:

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Total borrowings (i)	22,416	24,616
Cash and cash equivalents	(660)	(1,186)
Net debt	21,756	23,430
Equity (ii)	8,099	7,088
Total capital	29,855	30,518
Gearing ratio	73%	77%

- (i) Total borrowings includes long and short-term interest bearing liabilities.
- (ii) Equity includes all capital and reserves.

13. CONTRIBUTED EQUITY (continued)

c) Share-based Payment Reserve

The share-based payments reserve was used to record the value of share-based payments provided to employees, including key management personnel, as part of their remuneration and the value of share-based payments provided to vendors as part of the consideration in business combinations.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management objectives and policies

The Group's principal financial instruments comprise a term loan facility, working capital facility, finance leases, hire purchase contracts, forward contracts to purchase foreign currency and cash and short-term deposits.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group has various financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and currency risk and assessments of market forecasts for interest rate and foreign exchange prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the preparation of future rolling cash flow forecasts. The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Risk Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for hedging cover of foreign currency and interest rate risk, credit allowances and future cash flow forecasts.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Risk exposures and responses

Fair value of financial instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2016: fair values).

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. Details of the Group's debt are disclosed in note 11.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At balance date the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Financial assets		
Cash and cash equivalents	660	1,186
Other financial assets		2
	660	1,188
Financial liabilities Financial liabilities measured at amortised cost		
Term bank facility (net of capitalised transaction costs)	17,450	17,323
Working capital facility	4,650	4,650
Bank overdraft	22	2,278
	22,122	24,251
Net exposure	(21,462)	(23,063)

At 30 June 2017 none of the Group's borrowings were at a fixed rate of interest (2016: nil).

Interest rate exposure

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance date. At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax loss and other equity reserves would have been affected as follows:

	Pre Tax Profit / (Loss)		Other Equity Reserves	
	Increase / (Decrease)		Increase / (Decrease	
Judgments of reasonably possible	2017	2016	2017	2016
movements:	\$'000	\$'000	\$'000	\$'000
Group				
+1% (100 basis points)	227	239	-	-
- 0.5% (50 basis points)	(114)	(120)	-	-

The movements in profit/loss are due to higher/lower interest costs from variable rate debt and cash balances.

Foreign currency risk

The Group currently purchases certain components denominated in foreign currency, hence exposures to exchange rate fluctuations can arise. Where appropriate, the Group enters into forward foreign exchange contracts to manage the risk associated with anticipated purchase transactions up to six months out to hedge the exposure generated. The exchange gain or loss on these transactions is recognised directly in the statement of comprehensive income. At balance date the Group had no commitments to purchase foreign currency (2016: nil).

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties and, as such, collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

There are no significant concentrations of credit risk within the Group.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 11 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, recycling of assets through sale, finance leases and committed available credit lines

At 30 June 2017, 1.7% of the Group's debt is due to be retired in less than one year (2016: 0.5%), 97.3% of the Group's debt will mature within 18 months' time (2016: 98.5%) and the balance of the Group's debt will mature in more than 18 months but not more than 5 years.

Maturity analysis of financial assets and liabilities in accordance with management's expectation

The risk implied from the values shown in the table below reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant, equipment and investments in working capital (e.g. inventories and trade receivables). These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities, as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering its business that reflects management's expectations of expected settlement of financial assets and liabilities, as illustrated in the tables below.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Year ended 30 June 2017	≤ 6 months \$'000	6-12 months \$'000	1 – 5 years \$'000	> 5 years \$'000	Total \$'000
Consolidated					
Financial assets					
Cash & cash equivalents	660	-	-	-	660
Trade & other receivables	10,236	-	-	-	10,236
	10,896	-	-	-	10,896
Financial liabilities	,				,
Trade & other payables	10,298	-	-	-	10,298
Interest bearing loans & borrowings	390	_	22,026	_	22,416
Bank guarantees	-	-	165	-	165
	10,688	-	22,191	-	32,879
Net maturity	208	-	(22,191)	-	(21,983)
Year ended 30 June 2016	≤ 6 months \$'000	6-12 months \$'000	1 – 5 years \$'000	> 5 years \$'000	Total \$'000
Consolidated	Φ 000	Ψ 000	\$ 000	φσσσ	Φ 000
Financial assets					
Cash & cash equivalents	1,186	_	_	_	1,186
Trade & other receivables	11,764	_	_	_	11,764
	12,950	_	_	_	12,950
Financial liabilities	12,>00				12,>00
Trade & other payables	8,662	_	_	_	8,662
Interest bearing loans & borrowings	128	_	24,488	_	24,616
Bank guarantees	-	-	173	_	173
2	8,790	-	24,661	-	33,451
Net maturity	4,160	-	(24,661)		(20,501)

15. EXPENDITURE COMMITMENTS

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
a) Operating leases – propertiesLess than one year	1,353	1,547
Later than one year but less than five years	2,368	712 2,259
	3,721	2,239

The Group leases a number of warehouse, factory and office facilities under operating leases. The leases typically run for periods up to 5 years with an option to renew the lease after that date.

	Consolidated 2017 Minimum rentals \$'000	Consolidated 2016 Minimum rentals \$'000
b) Finance leases and hire purchase		
Less than one year	189	258
Later than one year but less than five years	132	147
	321	405
Less future finance charges	(27)	(40)
Total finance lease and hire purchase liabilities	294	365
Reconciled to:		
Current liability	90	128
Non-current liability	204	237
	294	365

The Group has entered into finance leases and hire purchase contracts in respect of various items of plant and machinery and motor vehicles. These finance leases and hire purchase contracts typically run for periods of 4 years with an option to renew the lease for a further 3 years or to purchase the asset.

16. STATEMENT OF CASH FLOWS

Reconciliation of net profit after tax to net cash flows from operations

	Consolidated 2017 \$'000	Consolidated 2016 \$'000
Net profit/(loss)	1,011	(22,250)
Adjustments for:		
Depreciation, amortisation and impairment of non-current assets	1,872	22,054
Profit on sale of fixed assets	_	(41)
Foreign exchange gain	(42)	(97)
Amortisation of capitalised finance fees	127	210
Doubtful debts (written off)/expense	(146)	155
Stock obsolescence benefit	(50)	-
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	1,528	(2,579)
(Increase)/decrease in inventories	(2,830)	175
Increase/(decrease) in trade and other payables	1,874	1,944
(Increase)/decrease in deferred tax assets	206	1,205
Increase/(decrease) in provisions	92	(190)
Net cash provided by operating activities	3,642	586

Non cash financing and investing activities

During the year the Group acquired property, plant and equipment with an aggregate value of \$49,412 (2016: \$253,115) by means of finance leases. These acquisitions are not reflected in the Statement of Cash Flows.

17. CLAIMS AND CONTINGENCIES

Guarantees

As detailed in note 18, the Company is party to a deed of cross guarantee with its wholly-owned subsidiaries. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee. No liability is expected to arise. The deed of cross guarantee will continue to operate indefinitely. As detailed in note 11, the Company is party to a finance facility agreement with Westpac Banking Corporation to which the Company's subsidiaries are guarantors. The extent to which an outflow of funds will be required is dependent on the risk of default under the finance facility agreement. The Directors do not expect default to occur.

18. RELATED PARTY DISCLOSURES

a) The Group's main related parties are as follows:

(i) Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered Key Management Personnel. For details of disclosures relating to Key Management Personnel, refer to note 21.

(ii) Subsidiary entities

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

			Ownership	Interest
Name of Subsidiary	Principal	Principal	Held by 2017	the Group 2016
Name of Subsidiary	_	-		
	Place of	Activity	%	%
	Business			
Traffic Technologies Signal & Hardware	Australia	Non-trading	100	100
Division Pty Ltd				
Traffic Technologies Traffic Management	Australia	Non-trading	100	100
Division Pty Ltd				
De Neefe Pty Ltd	Australia	Manufacture signs	100	100
Traffic Technologies Traffic Hire Pty Ltd	Australia	Non-trading	100	100
Sunny Sign Company Pty Ltd	Australia	Manufacture signs	100	100
Pro-Tech Traffic Management Pty Ltd	Australia	Non-trading	100	100
KJ Aldridge Investments Pty Ltd	Australia	Non-trading	100	100
Aldridge Traffic Group Pty Ltd	Australia	Non-trading	100	100
Excelsior Diecasting Pty Limited	Australia	Non-trading	100	100
Aldridge Traffic Systems Pty Ltd	Australia	Manufacture	100	100
		signals, lights etc.		
Aldridge Plastics Pty Ltd	Australia	Non-trading	100	100
Quick Turn Circuits Pty Ltd	Australia	Manufacture	100	100
		controllers		
Traffic Technologies International Limited	Hong Kong	Non-trading	100	100
Telensa Pty Ltd	Australia	Non-trading	100	-
Telensa Australia Pty Ltd	Australia	Non-trading	100	-

Entities subject to Individual Order

Pursuant to the Individual Order granted by ASIC under subsection 340(1) of the *Corporations Act 2001*, relief has been granted to the subsidiary companies from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports. The relief granted under the Individual Order is equivalent to the advantage of the relief offered by ASIC Corporations (Wholly owned Companies) Instrument 2016/785. As a condition of the Individual Order, Traffic Technologies Ltd and its subsidiary entities (the "Closed Group") entered into a Deed of Cross Guarantee on 28 June 2007. The effect of the deed is that Traffic Technologies Ltd has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Traffic Technologies Ltd is wound up or if it does not meet its obligation under the terms of overdrafts, loans or other liabilities subject to the guarantee.

18. RELATED PARTY DISCLOSURES (continued)

The consolidated statement of consolidated income and statement of financial position of the closed group is equivalent to the Group's statement of consolidated income and statement of financial position.

b) Transactions with Directors or Director-related entities

There were no other transactions or balances receivable from or payable to Directors or executives during the financial year or at the date of this report.

19. SUBSEQUENT EVENTS

Subsequent to balance date there have been no significant events which have affected the operations of the Group.

20. AUDITOR'S REMUNERATION

Amounts received or due and receivable by:

	Consolidated	Consolidated
	2017	2016
	\$	\$
Audit or review of the financial report of the entity and any other entity in the Group		
- ShineWing Australia	79,500	113,000

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Compensation of Key Management Personnel

Details of the nature and amount of each element of the remuneration of key management personnel are disclosed in the Remuneration Report section of the Directors' Report.

	Consolidated	
	2017	2016
Compensation by Category:	\$	\$
Key Management Personnel		
Short-term employee benefits	946,746	1,023,791
Post-employment benefits	86,585	93,110
Other long-term benefits	14,508	14,381
	1,047,839	1,131,282

b) Shares issued on exercise of remuneration options

No shares have been issued to key management personnel as a result of the exercise of remuneration options.

c) Option holdings of Key Management Personnel

There were no share options outstanding at 30 June 2017 or at the date of this report (2016: nil).

d) Loans to Key Management Personnel

There were no loans made to Directors or executives during the financial year and none are outstanding as at the date of this report.

22. OPERATING SEGMENTS

The Group has only one business segment: Traffic Products. The Group's chief operating decision maker (the Managing Director) reviews financial information on a consolidated basis and makes strategic decisions based on this consolidated information.

Major customers

The Group has a number of customers to which it provides both products and services. The Group supplies a number of government agencies that combined accounted for 8% of sales (2016: 8%). Revenue from the largest non-government customer accounted for 11% (2016: 8%) of sales.

Geographical information

The Group operates in one principal geographical location, namely Australia.

Revenue by geographic location:

	Consolidated	Consolidated
	2017	2016
	\$'000	\$'000
Australia	41,734	37,726
Overseas	7,119	6,284
Total	48,853	44,010

All the Group's non-current assets are located in Australia.

23. PARENT ENTITY INFORMATION

The individual financial statements for the parent entity show the following aggregate amounts:

	2017	2016
	\$'000	\$'000
Balance sheet		
Current assets	5,153	4,441
Total assets	53,008	52,412
Current liabilities	58,310	54,739
Total liabilities	75,771	72,077
Shareholders' equity Issued capital	40.020	40.020
Retained earnings	49,029 (72,792)	49,029 (69,694)
Share-based payments reserve	1,000	1,000
Total shareholders' equity	(22,763)	(19,665)
Loss for the year	(3,098)	(3,815)
Total comprehensive income	(3,098)	(3,815)
Guarantees entered into by the parent entity [^]	165	173

[^] As a condition of the Individual Order, Traffic Technologies Ltd and its subsidiary entities (the "Closed Group") entered into a Deed of Cross Guarantee on 28 June 2007. The effect of the deed is that Traffic Technologies Ltd has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Traffic Technologies Ltd is wound up or if it does not meet its obligations under the terms of overdrafts, loans or other liabilities subject to the guarantee.

Traffic Technologies Ltd **Directors' Declaration** For the year ended 30 June 2017

DIRECTORS' DECLARATION

The Directors of the Company declare that:

- 1. The consolidated financial statements and notes of Traffic Technologies Ltd are in accordance with the Corporations Act 2001 and:
 - comply with Australian Accounting Standards and the Corporations Regulations 2001; and
 - give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its (b) performance for the year ended on that date.
- The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the Corporations Act 2001.

The members of the Closed Group identified in note 18 are parties to the deed of cross guarantee under which each company guarantees the debts of the others. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a consolidated entity be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee described in note 18.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

On behalf of the Board

Garry Lowrey Chairman

Melbourne 30 August 2017

ASX Additional Information As at 10 August 2017

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 11 August 2017.

a) Distribution of Equity Securities

The number of shareholders, by size of holding, in each class of share are:

			Ordinary Shares	
			Number of	Number of
			Holders	Shares
1	-	1,000	151	18,725
1,001	-	5,000	38	106,927
5,001	-	10,000	44	371,672
10,001	-	100,000	364	16,331,714
100,001 an	ıd over		188	258,727,847
			785	275,556,885
Holdings less	than a	marketable parcel	256	774,088

b) Twenty Largest Holders

The names of the twenty largest holders of quoted shares are:

	Name	Ordinary Shares Number	Percentage
1.	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	33,457,241	12.14%
2.	MR ROBERT SCOTT MINNEY	17,653,744	6.41%
3.	LIOSATOS SUPERANNUATION PTY LTD <liosatos f<br="" s="">A/C> *</liosatos>	12,212,162	4.43%
4.	GP MANAGEMENT P/L <g&r a="" c="" f="" s=""></g&r>	12,000,150	4.35%
5.	BROWNLOW PTY LTD	11,050,000	4.01%
6.	SEASPIN PTY LTD <aphrodite a="" c=""></aphrodite>	10,463,192	3.80%
7.	BANNABY INVESTMENTS PTY LTD <bannaby a="" c="" fund="" super=""></bannaby>	10,060,607	3.65%
8.	MR LAMBROU LIOSATOU *	9,596,757	3.48%
9.	PETHOL (VIC) PTY LTD < MACDY NO 5 SUPER FUND A/C>	8,078,708	2.93%
10.	J P MORGAN NOMINEES AUSTRALIA LIMITED	7,483,139	2.72%
11.	QUOTIDIAN NO 2 PTY LTD	6,250,000	2.27%
12.	WARNEET SUPER PTY LTD <warneet a="" c="" fund="" super=""></warneet>	6,250,000	2.27%
13.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,043,250	1.83%
14.	WHOTIF PTY LTD	5,025,000	1.82%
15.	DE LA HAYE SUPER FUND PTY LTD <de a="" c="" fund="" haye="" la="" super=""></de>	5,000,000	1.81%
16.	ROMAN LOHYN PTY LTD <roman a="" c="" l="" lohyn="" p="" sf="" staff=""></roman>	5,000,000	1.81%
17.	CLAPSY PTY LTD <baron a="" c="" fund="" super=""></baron>	4,770,491	1.73%
18.	NETWEALTH INVESTMENTS LIMITED <wrap services<="" td=""><td>4.601.504</td><td>1 (00/</td></wrap>	4.601.504	1 (00/
	A/C>	4,621,594	1.68%
19.	MR ADRIAN RICHARD CREEDON	4,000,000	1.45%
20.	MR ALAN JOHN BROWN + MRS PAULA JANET BROWN <a &="" a="" brown="" c="" f="" family="" p="" s="">	3,394,779	1.23%
	Total	181,410,814	65.82%
* 100	ociotad with Directors		

^{*} Associated with Directors.

ASX Additional Information As at 10 August 2017

c) Substantial Shareholders (greater than 5%)

The names of substantial holders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Ordinary Shares	
Ordinary Shareholders	Number	Percentage
Mr. Con Liosatos*	21,808,919	7.91
Mr. Robert Minney	17,653,744	6.41

^{*} Associated with Directors.

d) Voting Rights

All ordinary shares carry one vote per share without restriction.

e) Securities subject to voluntary escrow restrictions

None.

f) Unquoted equity securities shareholdings

None.

g) Options

None.



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRAFFIC TECHNOLOGIES LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Traffic Technologies Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance a) for the year then ended; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001. b)

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter How the matter was addressed during the audit Impairment of Goodwill To ensure the recoverable amount of Goodwill exceeds its carrying value we performed, among others, the Note 9 following procedures:

The Group holds \$10.554 million of Goodwill acquired through previous business combinations.

Australian Accounting Standards require the Group to undertake an impairment analysis of assets where impairment indicators are identified from internal and external sources of information. Intangible assets of the Group are allocated to appropriate Cash Generating Units (CGUs) for

- Enquired with management on the basis of assumptions applied in the value in use model to obtain an understanding of the key variables impacting on each CGU;
- Obtained and evaluated the assumptions and methodology applied in management's value in use calculation including sales forecast,



Key Audit Matter

impairment testing. Management's impairment assessment process is highly judgemental and are based on assumptions including:

- · Identifying the business' cash generating units;
- Cash flow forecast;
- · Growth rates;
- · Terminal growth rates;
- Discount rate:

These assumptions are affected by expected future profitability of product lines (including new products) and the continuing profitability of the core business.

How the matter was addressed during the audit

operating costs, capital expenditure and corporate overheads;

- Performed sensitivity analysis on the key assumptions and variables to determine various outcomes of the value in use model in assessing whether certain CGUs are impaired;
- Engaged our internal valuation specialists to compare several valuation assumptions including the discount rate to external and industry benchmarks for reasonableness; and
- Reviewed the adequacy of the Group's disclosures about these assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of assets.

Capitalised development costs

Note 9

During the year the Group had capitalised development costs relating to traffic product development projects.

For internally generated intangible assets, the Australian Accounting Standards require certain conditions to be satisfied prior to development costs being capitalised.

This assessment can be complex as it requires management to differentiate costs between the research phase and development phase.

As at 30 June 2017, the Group had disclosed a carrying value of \$4.633 million relating to products under development.

To ensure the costs that have been capitalised on the balance sheet for development activities meet the requirements under the accounting standards we performed, among others, the following procedures:

- Tested a sample of capitalised development costs for the year to source documentation and verified whether the intangible asset recognition criteria had been satisfied for capitalisation. This includes determining whether the nature of the expense relates to research or development activity; and
- Considered management's assessment of the amortisation period relating to the subsequent measurement of intangible assets and determined whether this is in accordance with the Group's accounting policy.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.



If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

We conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them, all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 13 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Traffic Technologies Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

ShineWing Australia

Chartered Accountants

Rami Eltchelebi

Partner

Melbourne, 30 August 2017







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