TRAFFIC TECHNOLOGIES LTD
ABN 21 080 415 407
AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2014
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 2014	30 June 2013

Results for announcement to the market

Continuing Operations				A$'000
Revenues from ordinary activities *(item 2.1)*	down	11%	to	$40,078
Earnings before interest and tax	down	82%	to	$793
Profit/(loss) from ordinary activities after tax attributable to members *(item 2.2)*	down	138%	to	($1,172)
Net profit/(loss) for the period attributable to members *(item 2.3)*	down	138%	to	($1,172)

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	0.200¢	0.200¢
Final dividend	0.200¢	0.200¢
Record date for determining entitlements to the dividend	N/A	

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 2014	As at 30 June 2013
Net tangible assets per share	(3.4) cents	(6.7) cents

2. Dividends

No dividends have been declared in respect of the year ended 30 June 2014 (2013: 0.4 cents). Total dividend Nil (2013: $716,000).

During the financial year ended 30 June 2013 the Company 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. Alan Brown
Mr. Con Liosatos
Mr. Mark Hardgrave

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).

Other Information

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

Bankers
Westpac Banking Corporation
Level 10
360 Collins Street
Melbourne VIC 3000

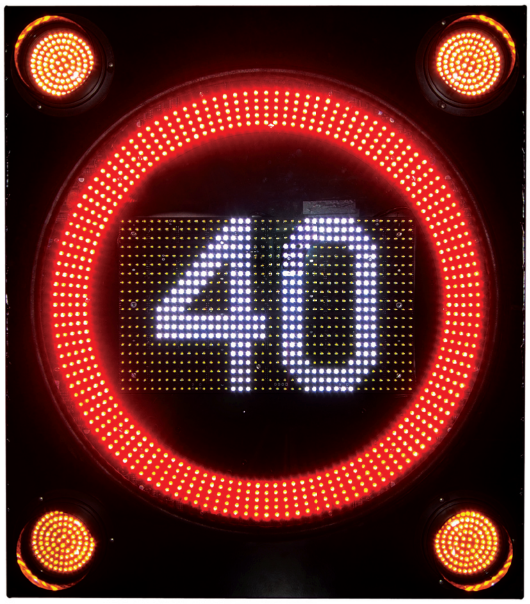
Auditors
Moore Stephens Melbourne
Level 10
530 Collins Street
Melbourne VIC 3000

annual report 2014

traffic technologies


ALDRIDGE
TRAFFIC
SYSTEM


SCHOOL
ZONE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TRAFFIC TECHNOLOGIES LTD
ABN 21 080 415 407
AND CONTROLLED ENTITIES

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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,

Please find enclosed the Annual Report for Traffic Technologies Ltd for the financial year ended 30 June 2014.

The 2014 financial year was a particularly challenging year for the Company, largely as a result of reduced government expenditure. The Group has reported a net loss after tax of $1.2m for the financial year ended 30 June 2014, compared to a net profit of $3.1m in the previous financial year. Earnings before Interest and Tax (EBIT) were $0.8m compared to $4.3m in the previous financial year. Because of the disappointing result, the Company has not declared a dividend in respect of the 2014 financial year.

The outlook for the 2015 financial year is however much more positive and the major infrastructure projects recently announced by State and Federal governments should further benefit the Company over the coming years.

Whilst the financial results over the past year were weak, I am nonetheless very proud of the developments we have made on a number of fronts and I would expect to see the Company perform significantly better in the coming years:

Firstly, our acquisition in December 2013 of Quick Turn Circuits Pty Ltd (QTC) has given the Group a strategic presence in the traffic controller market. We can now supply everything required for a complete intersection. The controller was an important piece of the package required to cement our leading market position in intersection products in Australasia. Furthermore, the acquisition of QTC provides the Group with a number of cross selling opportunities for our traffic signals in various export markets that QTC already supplies.

Secondly, we have continued to develop our export capabilities, particularly in the United Kingdom where we have won a number of contracts to supply pedestrian countdown timers, traffic signals and emergency telephones to a number of transport authorities, including Transport for London (TfL), local councils and train operating companies. Importantly, the UK is only in the early stages of upgrading its traffic signals to LED, approximately where Australia was a decade ago.

Thirdly, and this is what I am most excited about, we have entered the LED road lighting market in Australia with our first commercial sales. We entered the conventional road lighting market in 2012, and this is now also gaining momentum for us. However, with our depth of LED expertise, and our exposure to councils and Road Authorities we see LED road lighting as a unique opportunity for the Company. The roll-out of LED road lights across Australia is expected to result in significant long term cost savings for State and local government in terms of power savings and maintenance costs. With 2.25 million road lights in Australia this is a very large opportunity and we are poised at the forefront.

The acquisition of QTC during the year was funded via a placement of new shares, raising $7 million. Through this capital raising we welcome a number of new large shareholders as investors in the Company.

We look forward to improving shareholder value in the year ahead, particularly via the above mentioned growth initiatives.

Along with my fellow Directors, I thank you for your continued support.

Alan Brown
Chairman

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Traffic Technologies Ltd and Controlled Entities
Managing Directors' Operating and Financial Review

Dear Shareholder,

After 5 years of continual improved profitability each year it is disappointing this year to report a full year NPAT loss of $1.2m. Revenue was $40.1m (2013: $45.2m), 11% lower than the previous financial year. The decrease in revenue was primarily due to government cutbacks in funding for infrastructure projects. Reported EBIT this year was $0.8m, down from $4.3m last year. However, the reported result also included one-off costs of approximately $0.9m associated with a restructuring program and acquisition costs associated with the purchase of Quick Turn Circuits Pty Ltd (QTC). EBIT before one-off costs this year was $1.7m, which we see as a weak result for the Group.

It was encouraging however to see that the second half result this year showed an improvement on the first half, with EBIT improving from $0.2m in the first half to $0.6m in the second half. It is only early in the 2015 financial year, but so far we expect 2015 to be much more positive than 2014.

We have aggressively pursued new markets and developed new products during the year. Our research and development programs ensure that we continue to be market leaders in a global traffic industry which demands energy efficient products and increasingly innovative solutions. The Group has maintained its position as the leading supplier of traffic signals to the Australasian market and is developing its export opportunities as well as new products in the Intelligent Transport Systems (ITS) sector. Excitingly, after years of research and development our road lighting business is gaining momentum with our first commercial sales of LED road lights.

The acquisition of QTC during the year was an important strategic acquisition for the Group and has so far exceeded our expectations. QTC contributed positive returns to the Group for the period from acquisition on 17 December 2013 to 30 June 2014. The integration of QTC into our business is now complete and it has certainly strengthened our core traffic signals and intersection business in Australia and internationally. This was demonstrated by the Company recently announcing an export order won by QTC for the supply of $1.4m of traffic controllers to Saudi Arabia and the Group expects to develop its export markets further over the next year.

In December 2013 the Company completed a capital raising which raised a total of $7m by way of placement to institutional and sophisticated investors to finance the purchase of QTC ($4m), retire bank debt ($2m) and pay for capital raising, acquisition and integration costs.

Net assets were $28.9m at 30 June 2014, (2013: $23.4m). The change in the Group's net assets reflects the capital raising in the financial year, the acquisition of QTC and the loss for the year. Net debt reduced by $2.4m to $22.0m in the year, including the repayment of $2m debt following the capital raising completed in December 2013. The Company's debt facilities have been extended to 1 October 2015.

Net operating cash inflows were $1.4m for the year (2013: inflow $0.5m). Net investing cash outflow was $5.3m, including the $4m acquisition of QTC in December 2013 net of $0.4m cash acquired (2013: outflow $3.4m). Net financing cash inflow was $4.0m including the $7.0m capital raising in the first half and $2.4m net repayment of debt (2013: inflow $2.0m).

The Group remains the dominant supplier and manufacturer of LED traffic signals throughout Australia and New Zealand. The Group has continued to supply traffic signals for the upgrade of traffic signals in NSW. The roll-out was initially slower than we expected last year, however we are now expecting this project to be completed in 2015.

We have continued to invest in research and development to meet customer demand for more efficient and innovative products for the expanding Intelligent Transport Systems (ITS) industry. The Group is expanding its product range and has developed a number of new products such as pedestrian countdown timers which have already been supplied to the Australian and overseas markets.

Our export program continues to grow in overseas markets and in particular the United Kingdom where we have won a number of contracts to supply pedestrian countdown timers, traffic signals and emergency telephones to a number of transport authorities, including Transport for London (TfL), local councils and train operating companies. The Group is also now able to develop export markets in conjunction with QTC which is able to export its products worldwide to the 27 countries and the 37,000 intersections which use the SCATS system.

The Group continues to supply traditional road lights in Australia as we gain momentum entering the road lighting market. Over the past few years we have developed an LED road light which 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 in a time of rising electricity prices. Our LED road lights have been undergoing trials in various States and our first commercial sales have now been achieved. Some States have now started the process of changing their policies in favour of LED road lights. There are approximately 2.25 million road lights in Australia and the roll-out of LED road lights offers an exciting opportunity for the Group.

The Group's Signage business continues to be one of the main suppliers of road signs to the Australian market. The Signage business has again contributed profits in the 2014 financial year, benefitting from a continued focus by management and staff on cost control and factory efficiency combined with a focus on quality, service and reliability which has become the benchmark in a highly competitive market.

Outlook

The outlook for the 2015 financial year is much more positive than 2014 bolstered by the beginning of major infrastructure projects as recently announced by State and Federal governments. The Group also expects to benefit in the medium term from new product initiatives in the Intelligent Transport Systems (ITS) area, key manufacturing initiatives and in particular the expected roll-out of LED road lights across Australia which is expected to result in significant long term cost savings for State and local government in terms of power savings and maintenance costs. The Group has been working on a number of growth opportunities, which are expected to be of significant benefit to the Group in the medium term:

- The New South Wales traffic signal upgrade is expected to complete in 2015. In addition there are a number of other traffic signal upgrade opportunities in Australia with approximately 30% of the market not yet converted to LED. Our task in Australia, though, will still not be done because LED traffic signals that were installed over the past 13 years are slowly coming to the end of their useful life and will then also need to be replaced or upgraded.

- The acquisition of QTC has enabled the Group to expand its product range with the addition of traffic controllers and opened new markets overseas for the Group's traffic signals. Now the Group has access to a worldwide distribution market associated with QTC.

- The Group is also continuing to develop its presence in the UK and New Zealand markets. The UK is in its early stages of upgrades to LED traffic signals with only 13% of the 6,000 intersections in London converted to date. We see this is a very large opportunity for the Group, especially with the announcement from "Transport for

London" of the award of 317 million pounds of maintenance contracts to three maintenance contractors, which the Group is a supplier to, for up to an 8 year period which will include the upgrade of 6,000 traffic intersections to LED technology. Whilst it is at an early stage, this is expected to provide a major opportunity to the Group to accelerate our position in the UK market.

- The Group has been developing a range of LED road lights which will enable State Road Authorities and local councils to achieve substantial power savings and reduce maintenance costs. The LED road lighting market is several times the size of the traffic signals market and presents a very large opportunity for the Group. We now have products approved in Victoria, South Australia and Northern Territory by certain Road Authorities and have already had our first commercial sales. We continue to remain focussed in this exciting area with trials continuing in the remaining parts of the country.

- The Group has been developing a range of new products in the ITS area, including electronic speed signs, school speed zones, variable message signs, vehicle activated signs and ramp control signs.

- The Group is continuing with its program to reduce costs including rationalising production, processes and systems where possible. We are very focussed on further cost reductions and ongoing efficiency improvements.

The Group is however not yet in a position to give earnings guidance for the financial year ending 30 June 2015.

We are pleased to have your ongoing support despite our recent challenging year. Whilst economic forecasts are never certain we look forward to improved 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. Alan Brown
Mr. Con Liosatos
Mr. Mark Hardgrave

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
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Bankers
Westpac Banking Corporation
Level 10
360 Collins Street
Melbourne VIC 3000

Auditors
Moore Stephens Melbourne
Level 10
530 Collins Street
Melbourne VIC 3000

Traffic Technologies Ltd and Controlled Entities
Financial Report for the year ended 30 June 2014
Contents

Your Directors submit their report for the year ended 30 June 2014.

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. Alan J Brown FAICD	(Age 68) Non-Executive Chairman Appointed January 2004. Mr. Brown has extensive experience in both the private and public sectors. He is a Director of a range of private companies and has established several over a thirty year period. He was a Member of the Victorian Parliament from 1979-97 and is a former Leader of the Victorian Liberal Party. As Minister for Transport he implemented major reforms to Victoria's transport infrastructure. He was Agent General for Victoria in London from 1997-2000. He is Chairman of Intowork Australia. He is also Chairman of Tasmanian Company Work & Training Limited. Mr. Brown was appointed a non-executive Director of Traffic Technologies Ltd in January 2004 and was appointed Chairman in October 2010. Mr. Brown is Chairman of the Company, Chairman of the Nomination & Remuneration and Corporate Governance committees and a member of the Audit & Risk committee. Mr. Brown has not served as a Director of any other listed companies during the three years prior to June 2014.
Mr. Constantinos L Liosatos MAICD	(Age 52) 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 2016 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 2014.
Mr. Mark W Hardgrave B Com ACA MAICD	(Age 56) Non-Executive Director. Appointed January 2013. Mr. Hardgrave has a corporate advisory background. Earlier in his career he was executive Director of Brencorp Group, a private investment group. He was Vice President Investment Banking at Merrill Lynch, specialising in equity capital raising and mergers and acquisitions, after which he was senior investment manager with Thorney Investment Group. Mr. Hardgrave was previously Chief Executive Officer of Bennelong Group, which specialises in listed equities, property and private equity. Currently Mr. Hardgrave is Director of M&A Partners, a Melbourne based private investment and corporate finance group. Mr. Hardgrave is also a Director of Rivercorp Land and Water Limited. Mr. Hardgrave holds a Bachelor of Commerce degree from the University of Queensland. He is a chartered accountant and a member of the Australian Institute of Company Directors. Mr. Hardgrave has not served as a Director of any other listed companies during the three years prior to June 2014.

Name	Qualifications, Experience and Special Responsibilities
Company Secretary	
Mr. Peter K Crafter LL.B (Hons.), MBA, FCA, CA, MCT, FAICD, FCIS, FGIA	(Age 57) 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 Chief Financial Officer of ASX-listed Software Communication Group Limited from 1999 to 2002 and was Acting Chief Executive Officer of that Company from 2001 to 2002. He was Chief Financial Officer of ASX-listed CBD Energy Limited from 2002 to 2003. He was Company Secretary of ASX-listed The Swish Group Limited from 2003 to 2009. 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.

INTEREST IN SHARES

As at the date of this report, the interests of the Directors in the shares of Traffic Technologies Ltd were:

Director	Number of Ordinary Shares
Mr. Alan Brown	3,394,779
Mr. Con Liosatos	15,208,919
Mr. Mark Hardgrave	1,548,388

DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2014 (2013: $0.004 per share).

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 a key participant in the traffic signals market in Australia for over 40 years where customers are mainly State Road Authorities or contractors building or maintaining traffic intersections for State Road Authorities. The Group's key manufacturing facility for traffic signals, lighting and Intelligent Transport Systems (ITS) equipment is based in Rhodes, New South Wales.

The Group also exports its traffic signals, traffic controllers and associated products such as pedestrian countdown timers, as well as emergency telephones to an increasing number of international customers.

In December 2013 the Company completed the acquisition of Quick Turn Circuits Pty Ltd (QTC), a company 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.

QTC has developed a traffic controller based on the Sydney Coordinated Adaptive Traffic System (known as SCATS) which is used and operated in 27 countries and 37,000 intersections worldwide. This is an excellent strategic fit with the Group's current traffic signals and intersection business and provides the Group with the ability to exploit the proprietary technology owned by QTC.

The Group continues to be one of the main suppliers to the road signage market in Australia. Customers include State Road Authorities, local councils and construction companies. The Signage business has 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. Conversely, an increase in the Australian dollar exchange rate can affect export opportunities. The Group enters into foreign currency hedging arrangements where appropriate.
- Increasing costs of operations, including labour costs – the Group constantly monitors its cost base and implements cost savings and operating efficiencies where possible.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

Contributed equity increased by $364,000 as a result of the issue of shares under the Dividend Reinvestment Plan (DRP) and Shortfall Placement Agreement. In addition, the Company completed a capital raising of $7m in December 2013. For further details, refer note 16.

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 Traffic Products segment is regulated by the Environmental Protection Act 1970 (8056/1970) and the Occupational Safety Regulations 2009 (54/2009) with regard to waste water run-off and the storage and treatment of chemicals. These operations are regularly audited by an independent environmental consultant that reports directly to the Environmental Protection Authority.

There have been no significant known breaches of the Group's compliance with environmental regulations.

Other Group operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

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 2014, the Group paid premiums of $55,960 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 outlines the Director and executive remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling all activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Directors and executives.

The Nomination & Remuneration Committee comprises all independent Directors and is chaired by Mr. Alan Brown, who is an independent Director. The Nomination & Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing Director and executive team.

The Nomination & Remuneration Committee has not engaged any consultants to review the remuneration arrangements of Key Management Personnel.

Remuneration Philosophy

The performance of the Group depends upon the quality of its Directors and executives. To prosper, the Group must attract, motivate and retain highly skilled Directors and executives.

Remuneration Structure

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

Non-executive Director Remuneration

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.

Structure

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. Aggregate maximum non-executive Directors' remuneration is currently $400,000 per year.

It is considered good governance for Directors to have a stake in the Company on whose Board they sit. Non-executive Directors have long been encouraged to hold shares in the Company (purchased by the Director on market). The Company also facilitates this through the Company Share Option Plan.

The non-executive Directors do not receive retirement benefits, other than statutory superannuation, nor do they participate in any incentive programs.

Executive Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- Reward executives for Group and individual performance;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Group; and
- Ensure total remuneration is competitive by market standards.

Structure

Currently remuneration is paid in the form of cash remuneration, superannuation contributions and share options where applicable.

Details of the remuneration of Directors and Key Management Personnel for the financial years ended 30 June 2014 and 30 June 2013 is detailed in Table 1 of this report.

Share Options

All Directors and Key Management Personnel have the opportunity to qualify for participation in the Company Share Option Plan (which forms part of long term incentive variable remuneration). The issue of options under this plan is at the discretion of the Board. Options are used by the Company as a non-cash form of remuneration and have the objective of aligning employee interests with the objective of increasing shareholder wealth. Any issue of options under the plan to Directors is subject to shareholder approval.

During the financial year ended 30 June 2014 no options were granted as equity compensation benefits to Key Management Personnel and no options vested during the year (2013: nil). There were no options outstanding as at 30 June 2014 or at the date of this report.

The Company has no arrangements to limit the risk of exposure of Key Management Personnel to options.

Executive Service and Management Agreements

Key Management Personnel are given the opportunity to receive their fixed remuneration in a variety of forms including cash, superannuation contributions and fringe 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 Group. The service contracts entered into with Key Management Personnel do not prescribe how compensation levels are to be modified from year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the compensation policy.

Director and Key Management Personnel Details

The following persons acted as Key Management Personnel of the Company during or since the end of the financial year.

Mr Alan Brown	Chairman
Mr. Con Liosatos	Managing Director
Mr. Mark Hardgrave	Non-Executive Director
Mr. Peter Crafter	Chief Financial Officer and Company Secretary

Key Management Personnel

The Managing Director, Mr. Liosatos, is employed under a rolling contract. Employment may be terminated by the giving, by either party, of nine 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. Mr. Liosatos is entitled to a bonus at the discretion of the Board based on the Group's financial performance. No bonuses were paid in the financial year. Mr. Liosatos' performance is reviewed annually by the Nomination & Remuneration Committee.

The Company Secretary and Chief Financial Officer, Mr. Peter Crafter, is employed under a rolling employment contract. Employment may be terminated by the giving, by either party, of six 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. Mr. Crafter is entitled to a bonus at the discretion of the Board based on the Group's financial performance. No bonuses were paid in the financial year.

Non-executive Director Agreements

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

- entrench a Director's rights to be indemnified by the Company to the maximum extent permitted by law;
- 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
- access the books and records of the Company, which relate 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.

Group Performance and Shareholder Returns

	2014	2013
Earnings before Interest and Tax (EBIT) ($'000)	$793	$4,314
Net profit/(loss) attributable to equity holders of the parent ($'000)	($1,172)	$3,092
Basic earnings/(loss) per share	(0.49 cents)	1.74 cents
Share price at balance date	5.6 cents	5.6 cents
Share price growth over year ended 30 June	-	93%

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

TABLE 1: REMUNERATION OF KEY MANAGEMENT PERSONNEL AND OTHER EXECUTIVES (AUDITED)

	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 ended 30 June 2014									
Key Management Personnel									
Non-executive Directors									
Mr. Alan Brown	103,241	-	-	9,550	-	-	-	112,791	-
Mr. Mark Hardgrave	54,862	-	-	5,075	-	-	-	59,937	-
Sub-total non-executive Directors	**158,103**	**-**	**-**	**14,625**	**-**	**-**	**-**	**172,728**	**-**
Executives									
Mr. Con Liosatos	473,025	96,860	-	43,755	-	17,518	-	631,158	-
Mr. Peter Crafter	265,932	31,804	-	24,599	-	10,874	-	333,209	-
	738,957	**128,664**	**-**	**68,354**	**-**	**28,392**	**-**	**964,367**	**-**
Total	**897,060**	**128,664**	**-**	**82,979**	**-**	**28,392**	**-**	**1,137,095**	**-**
Year ended 30 June 2013									
Key Management Personnel									
Non-executive Directors									
Mr. Alan Brown	103,500	-	-	9,315	-	-	-	112,815	-
Mr. Mark Hardgrave	23,340	-	-	2,101	-	-	-	25,441	-
Mr Ray Horsburgh	36,667	-	-	2,773	-	-	-	39,440	-
Sub-total non-executive Directors	**163,507**	**-**	**-**	**14,189**	**-**	**-**	**-**	**177,696**	**-**
Executives									
Mr. Con Liosatos	450,500	78,235	56,799	45,655	-	33,858	-	665,047	9%
Mr. Peter Crafter	262,350	28,651	30,364	26,344	-	23,265	-	370,974	8%
	712,850	**106,886**	**87,163**	**71,999**	**-**	**57,123**	**-**	**1,036,021**	**8%**
Total	**876,357**	**106,886**	**87,163**	**86,188**	**-**	**57,123**	**-**	**1,213,717**	**7%**

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 & 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
Mr. Alan Brown	11	11	2	2	1	1	1	1
Mr. Con Liosatos	11	11	2	2	1	1	1	1
Mr. Mark Hardgrave	11	11	2	2	1	1	1	1

BOARD COMMITTEES

As at the date of this report the Company had an Audit & Risk Committee, a Nomination & Remuneration Committee and a Corporate Governance 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 & Risk – Mr. Mark Hardgrave
- Nomination & Remuneration – Mr. Alan Brown
- Corporate Governance – Mr. Alan Brown

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 Class Order 98/0100. The Company is an entity to which the Class Order 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. Alan Brown
Independent Non-Executive Chairman

27 August 2014
Melbourne

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ACCOUNTANTS & ADVISORS

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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 2014 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.

Moore Stephens

MOORE STEPHENS
Chartered Accountants

Nick Michael
Partner

Melbourne, 27 August 2014

The Board of Directors of Traffic Technologies Ltd is responsible for the corporate governance of the Group. The Board has implemented the Recommendations of the ASX Corporate Governance Council to the extent appropriate for the size and nature of the Company's business as described below.

The Corporate Governance Statement follows the ASX Corporate Governance Council's "Second Edition - Revised Corporate Governance Principles and Recommendations" and reports on the Company's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendation that has not been adopted by the Company, together with the reasons it has not been adopted.

The Board has established a Corporate Governance Committee, which is responsible for reviewing the Company's compliance with best practice corporate governance requirements, including compliance with the ASX Corporate Governance Council's Recommendations. The Corporate Governance Committee comprises all Board members and is chaired by Mr. Alan Brown.

The Company's corporate governance practices have been in place throughout the year ended 30 June 2014. With the exception of the departures from the Corporate Governance Council recommendations detailed below, the corporate governance practices of the Company are compliant with the Council's best practice recommendations. The Company's Corporate Governance Policies are disclosed on the Company's website.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions

The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board acts on behalf of and is accountable to shareholders. The Board seeks to identify the expectations of shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring that arrangements are in place to adequately manage these risks. The Board guides and monitors and fulfils its responsibility to protect shareholder interests and enhance shareholder value by:

- Approving and periodically reviewing the business and financial objectives, strategies and plans of the consolidated entity;
- Monitoring the financial performance of the consolidated entity, including approval of the consolidated entity's financial statements;
- Ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- Identifying areas of significant business or financial risk to the consolidated entity and ensuring management takes appropriate action to manage those risks;
- Reviewing the performance and remuneration of Board members and key members of staff;
- Monitoring the operations of the consolidated entity and the performance of management;
- Establishing and maintaining appropriate ethical standards; and
- Reporting to the shareholders, the Australian Securities and Investments Commission and the Australian Securities Exchange as required.

The Board delegates to the Managing Director and the executive management team responsibility for the operation and administration of the consolidated entity. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives

The Board and the Managing Director evaluate the performance of senior management annually against Key Performance Indicators (KPI's), including measuring actual performance against planned performance.

Recommendation 1.3: Companies should provide the information indicated in the Guide to Reporting on Principle 1

A copy of the Company's Board Charter, which sets out the role and responsibilities of the Board, is available on the Company's website in the Corporate Governance section. A performance evaluation of senior executives has taken place in the reporting period in accordance with the process detailed in Recommendation 1.2.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1: A majority of the Board should be independent Directors

The Board has been structured to ensure that an appropriate mix of experience and expertise is available to provide strategic guidance for the Company and effective oversight of management. It is the policy of the Company that the composition of the Board is determined having regard to the following concepts:

- That the Board will comprise a majority of independent Directors;
- That the Board will comprise a minimum of three Directors and the actual number may be higher where additional expertise is required in specific areas and an outstanding candidate is located;
- That the Chairman of the Board will be an independent non-executive Director; and
- That the Board members should represent a broad range of expertise and experience

A Director will be considered an independent Director if the Director:

(a) is not a substantial shareholder of the Company, being a shareholder who does not have more than a 5% interest in the Company;
(b) has not been employed within the last 3 years as an executive of the Company;
(c) has not within the last 3 years been a principal of a material professional adviser or consultant to the Company;
(d) is not a material supplier, customer or other contractor of the Company; and
(e) is otherwise considered by the Board to be independent.

In accordance with the definition of independence above, two of the three Directors of the Company who served during the year ended 30 June 2014 were independent. Mr. Liosatos, the Managing Director, is a full time executive and substantial shareholder of the Company. The Company had an independent chairman throughout the year ended 30 June 2014.

The Company's constitution provides that a Director other than the Managing Director may not retain office for more than three calendar years or beyond the third Annual General Meeting following his or her election, whichever is longer, without submitting for re-election. One third of the Directors retire each year and are eligible for re-election. The Directors who retire by rotation at each annual general meeting are those with the longest length of time in office since their appointment or last election. All Directors must be elected by the members of the Company. It is not a requirement for a person who is a Director to own shares in the Company.

Recommendation 2.2: The chair should be an independent Director

The Chair is held by an independent Director, Mr. Brown.

Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual

The positions of chairman of the Board and Managing Director are held by separate persons.

Recommendation 2.4: The board should establish a nomination committee

The Board has established a Nomination & Remuneration Committee, which is chaired by Mr. Brown. In considering Board candidates, the Nomination & Remuneration Committee will identify potential skill gaps and seek suitable qualified candidates to fill such gaps, using external recruitment tools where necessary.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual Directors

The performance of the Board, Board Committees and individual Directors is reviewed regularly by the Board as a whole. During the reporting period, the Board reviewed the performance of each Board member and key executive. The performance criteria against which Directors and executives are assessed are aligned with the financial and non-financial objectives of the Company. Directors whose performance is consistently unsatisfactory may be asked to retire.

Recommendation 2.6: Companies should provide the information in the Guide to reporting on Principle 2

The skills, experience and expertise relevant to the position held by each Director in office at the date of the Annual Report is included in the Directors' Report.

The Company provides the capacity for any Director to obtain separate professional advice on any matter being discussed by the Board and for the Company to pay the cost incurred. Before the engagement is made, the Director is required to obtain the Chairman of the Board's approval. Approval will not be unreasonably denied and the Director will be expected to provide the Board with a copy of that advice.

The Company's Nomination & Remuneration Committee Charter sets out the process to be followed when a vacancy exists on the Board.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code

All Directors and officers of the Company are required to discharge their responsibilities ethically and with integrity.

The Board has drawn up a code of conduct to guide Board members, executives and employees in carrying out their duties and responsibilities, to guide compliance with legal and other obligations and to maintain confidence in the Company's integrity. Executives and employees are encouraged to report to Board members any concerns regarding potentially unethical practices.

The Board is committed to good corporate governance and aims for continuous improvement in these practices. The Company embraces high ethical standards and requires its employees to demonstrate both personal and corporate responsibility. Directors, officers and employees are required to safeguard the integrity of the Company and to act in the best interests of its stakeholders (generally, shareholders).

There must be no conflict, or perception of a conflict, between the interests of any Director, officer or employee of the Company and the responsibility of that person to the Company and to the stakeholders. No Director, officer or employee may improperly use their position for personal or private gain to themselves, a family member, or any other person ("associates").

The Company has established a trading policy governing the trading of its securities. As required by the ASX Listing Rules, a copy of the Company's trading policy is available from the Company's ASX announcements platform.

Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of the policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The Company is committed to diversity and recognises the benefits of arising from employee and Board diversity and the importance of benefiting from all available talent. Accordingly, the Company has established a diversity policy, which is available on the Company's website.

Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them

The diversity policy outlines requirements for the Board to develop measurable objectives for achieving diversity and annually assess both the objectives and the progress in achieving those objectives. Accordingly, the Board has developed the following objectives regarding gender diversity and aims to achieve these objectives over the next five years as Director and senior executive positions become vacant and appropriately qualified candidates become available:

	Objective	Objective	Actual	Actual
	Number	%	Number	%
Women on the Board	1	25%	-	-
Women in senior management roles	5	25%	-	-
Women employees in the Group	37	25%	27	18%

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board

This information is disclosed in the table above.

Recommendation 3.5: Companies should provide the information in the Guide to reporting on Principle 3

The Board confirms that the information required in this section of the Corporate Governance Principles and Guidelines has been provided.

PRNCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1: The Board should establish an Audit Committee

The Board has established an Audit & Risk Committee which plays a key role in assisting the Board of Directors with its responsibilities relating to accounting, developing internal control systems, reporting practices and risk management and ensuring the independence of the Company's auditors.

The Audit & Risk Committee oversees and appraises the quality of the audits conducted by the auditors of the Company. Moore Stephens Melbourne are the currently appointed auditors of Traffic Technologies. Their appointment will be reviewed periodically. The Company believes in the ongoing assessment of its audit arrangements and complies with any regulatory requirements to rotate its external audit partner.

Meetings of the Committee are held a minimum of twice a year, represented by one meeting for each of the full year and half year financial accounts review, approval and recommendation to the Board. Further meetings may be held for discussion on policies and procedures and risk management matters. The auditors of the company will also be invited to make recommendations to the Committee on policies and procedures for discussion.

Recommendation 4.2: Structure of the Audit Committee

The Company's Audit & Risk Committee follows each of the principles listed below:

- Consists only of independent non-executive Directors;
- Consists of a majority of independent non-executive Directors; and
- Has an independent Chairperson, who is not Chairperson of the Board.

All members of the Board with the exception of the Managing Director are members of the Audit & Risk Committee. The Audit & Risk Committee is currently comprised of the two independent members of the Board and is chaired by Mr. Hardgrave, who is an independent chairman and who is not Chairman of the Board.

Recommendation 4.3: The Audit Committee should have a formal charter

A copy of the Company's Audit & Risk Committee Charter is available on the Company's website in the Corporate Governance section.

Recommendation 4.4: Companies should provide the information in the Guide to reporting on Principle 4

Audit & Risk Committee meetings are attended by the partner responsible for the Company's audit. For details of meetings of the Audit & Risk Committee held during the year and attendance at those meetings, refer to the Directors' Report.

The Chair of the Audit & Risk Committee, Mr. Hardgrave, is a qualified chartered accountant. All Audit & Risk Committee members have extensive business experience at Board level and in senior management positions.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

The Company's Continuous Disclosure Policy is designed to promote transparency and investor confidence and ensure that all interested parties have an equal opportunity to obtain information which is issued by the Company. The Company is committed to complying with the continuous disclosure obligations contained in the Listing Rules of the Australian Securities Exchange (ASX) and under the Corporations Act 2001 and ensuring that all shareholders and the market have an equal opportunity to obtain and review full and timely information about the Company's securities.

The Managing Director controls all the Company's communications with assistance from the Company Secretary in carrying out this responsibility. The Managing Director and Chairman are the only two officers allowed to authorise the release of material information to the market. The Company Secretary is responsible for administering this policy and is responsible for dealing with the ASX in relation to all Listing Rule issues. The procedures which have been developed to comply with these rules include immediate reporting of any matter which could potentially have a material effect, via established reporting lines to the Managing Director and/or the Company Secretary.

Disclosure of such price-sensitive information to the ASX must not be delayed and is disclosed, in the first instance, to the ASX and only after receiving confirmation that a release of this disclosure has been made to the market will it then be placed on the Company's website. Material information must not be selectively disclosed (i.e. to analysts, the media or shareholders) prior to being announced to the ASX and all media releases must be referred to the Managing Director for approval prior to any release.

Recommendation 5.2: Companies should provide the information in the Guide to reporting on Principle 5

A copy of the Company's Continuous Disclosure Policy is available on the Company's website in the Corporate Governance section.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

The Company's communication strategy is to promote effective communication with shareholders. The Company is committed to:

- ensuring that shareholders and the financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way;
- complying with the continuous disclosure obligations contained in the applicable ASX Listing Rules and the Corporations Act 2001; and
- communicating effectively with its shareholders and making it easier for shareholders to communicate with the Company.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Group's strategy and goals. The external auditor is required to attend the Annual General Meeting of the Company and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Recommendation 6.2: Companies should provide the information in the Guide to reporting on Principle 6

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- through the release of information to the market via the ASX;
- through the distribution of the Annual Report and Notices of Annual General Meeting;
- through shareholder meetings;
- through letters and other forms of communications directly to shareholders;
- by posting relevant information on the Company's website; and
- by providing shareholders with a choice of information delivery i.e. paper or electronic means.

The Company's website has a dedicated Investor Relations section. The Company endeavours to publish on the website all important company information and relevant announcements made to the market.

The Company's reports and ASX announcements may be viewed and downloaded from the ASX website: (Stock code: TTI).

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

The Audit & Risk Committee is responsible for ensuring that adverse risks and mitigation of these risks are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Audit & Risk Committee and the Board of Directors.

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks

The Company has developed a Risk & Oversight Management Policy, a copy of which is available on the Company's website in the Corporate Governance section. Management undertakes detailed risk assessments of the Company's operations, procedures and processes. The risk assessments aim at identifying the following:

- a culture of risk control and the minimisation of adverse risk throughout the Company, which is being done through natural or instinctive process by employees of the Company;
- a culture of risk control that can easily identify adverse risks as they arise and amend practices;
- the installation of practices and procedures in all areas of the business that are designed to minimise an event or incident that could have a financial or other effect on the business and its day to day management;
- adoption of practices and procedures to minimise many of the standard adverse commercial risks, i.e. taking out the appropriate insurance policies, or ensuring compliance reporting is up to date; and
- adoption of regular risk management controls reporting to the Board, via the Audit & Risk Committee.

For the purposes of assisting investors to understand better the nature of the risks faced by the Company, the Board has prepared a list of adverse operational risks as part of these disclosures. However the Board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events:

- Changes in Federal or State government expenditure on road infrastructure.
- Adverse change in economic conditions affecting demand for the Group's products or services.
- Technological obsolescence.
- Foreign exchange risk; and
- Increasing costs of operations, including labour costs.

Management reports to the Board regularly on the Company's material business risks and on the effectiveness of the Company's management of those risks.

Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act

The Board confirms that it has received written confirmation from the Managing Director and the Chief Financial Officer in accordance with section 295A of the Corporations Act that:

- In their view the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and

- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

Recommendation 7.4: Companies should provide the information in the Guide to reporting on Principle 7

The Company confirms that the reports by senior management referred to in Recommendations 7.2 and 7.3 have been received by the Board.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1: The board should establish a remuneration committee

The Company has a Nomination & Remuneration Committee which is responsible for determining and reviewing compensation arrangements for the Directors and the Managing Director and for approving parameters within which the review of the compensation arrangements for the senior executive team can be conducted by the Managing Director.

Recommendation 8.2: The remuneration committee should be structured so that it consists of a majority of independent Directors, is chaired by an independent chair and has at least three members

The Nomination & Remuneration Committee comprises all independent non-executive Directors and is chaired by Mr. Brown, who is an independent Director.

When the Company reaches a size that warrants the expansion of the Board to include an additional independent Director, the new Director will be appointed to the Nomination & Remuneration Committee.

Recommendation 8.3: Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives

Details of Directors' and key management personnel remuneration are set out in the Remuneration Report of the Annual Report. The structure of non-executive Directors' remuneration is distinct from that of executives and is detailed in the Remuneration Report of the Annual Report

Recommendation 8.4: Companies should provide the information in the Guide to reporting on Principle 8

Details of Directors' and key management personnel remuneration are set out in the Remuneration Report of the Annual Report.

There are no schemes for retirement benefits, other than superannuation, for non-executive Directors.

A copy of the Company's Nomination & Remuneration Committee Charter is available on the Company's website in the Corporate Governance section.

Traffic Technologies Ltd and Controlled Entities
Statement of Comprehensive Income
For the year ended 30 June 2014

	Note	Consolidated 2014 $'000	2013 $'000
Revenue	2a	**40,078**	45,217
Other income	2b	**230**	34
Changes in inventories of finished goods and work in progress		**698**	2,878
Raw materials and consumables used		**(19,412)**	(23,972)
Employee benefits expense	3a	**(14,540)**	(13,339)
Occupancy costs		**(2,255)**	(2,317)
Advertising and marketing expense		**(83)**	(60)
Equipment rental		**(7)**	(101)
Transaction costs relating to acquisition of subsidiary		**(218)**	-
Other expenses	3b	**(1,598)**	(2,274)
Depreciation and amortisation expense	3c	**(2,100)**	(1,752)
Earnings before interest and tax (EBIT)		**793**	4,314
Finance costs	3d	**(1,776)**	(1,791)
Net profit/(loss) for the year before income tax		**(983)**	2,523
Income tax benefit/(expense)	4b	**(189)**	569
Net profit/(loss) for the year		**(1,172)**	3,092
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**(1,172)**	3,092
Earnings/(loss) per share		**Cents**	Cents
- Basic (cents per share)	5	**(0.49)**	1.74
- Diluted (cents per share)	5	**(0.49)**	1.74

The Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd and Controlled Entities

Statement of Financial Position

As at 30 June 2014

	Note	Consolidated	
		2014	2013
		$'000	$'000
Current Assets			
Cash and cash equivalents	20a	**768**	681
Trade and other receivables	8	**8,514**	8,606
Inventories	9	**10,238**	9,540
Total Current Assets		**19,520**	18,827
Non-Current Assets			
Property, plant and equipment	11	**2,174**	2,477
Goodwill	12	**30,554**	30,535
Intangible assets	12	**6,063**	3,707
Other financial assets	10	**1**	1
Deferred tax assets	4c	**1,669**	1,468
Total Non-Current Assets		**40,461**	38,188
TOTAL ASSETS		**59,981**	57,015
Current Liabilities			
Trade and other payables	13	**5,443**	5,850
Interest bearing loans and borrowings	14	**5,028**	4,042
Provisions	15	**2,312**	2,351
Derivative financial instruments	17	**50**	-
Total Current Liabilities		**12,833**	12,243
Non-Current Liabilities			
Trade and other payables	13	**-**	23
Interest bearing loans and borrowings	14	**17,789**	21,034
Provisions	15	**441**	166
Derivative financial instruments	17	**-**	109
Total Non-Current Liabilities		**18,230**	21,332
TOTAL LIABILITIES		**31,063**	33,575
NET ASSETS		**28,918**	23,440
Equity			
Contributed equity	16	**49,029**	42,015
Accumulated losses		**(21,111)**	(19,575)
Share-based payments reserve		**1,000**	1,000
TOTAL EQUITY		**28,918**	23,440

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

Traffic Technologies Ltd and Controlled Entities
Statement of Changes in Equity
For the year ended 30 June 2014

	Note	Ordinary Shares	Share based payments Reserve	Accumulated Losses	Total
		$'000	$'000	$'000	$'000
CONSOLIDATED					
At 1 July 2012		41,663	1,000	(22,315)	20,348
Profit for the year		-	-	3,092	3,092
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	3,092	3,092
Transactions with owners in their capacity as owners:					
Shares issued under Dividend Reinvestment Plan	16	96	-	(96)	-
Shares issued under Shortfall Placement Agreement	16	256	-	(256)	-
At 30 June 2013		**42,015**	**1,000**	**(19,575)**	**23,440**
Loss for the year		**-**	**-**	**(1,172)**	**(1,172)**
Other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**(1,172)**	**(1,172)**
Transactions with owners in their capacity as owners:					
Shares issued under Dividend Reinvestment Plan	16	**78**	**-**	**(78)**	**-**
Shares issued under Shortfall Placement Agreement	16	**286**	**-**	**(286)**	**-**
Share Placement	16	**2,865**	**-**	**-**	**2,865**
Share Placement	16	**4,160**	**-**	**-**	**4,160**
Share issue costs		**(494)**	**-**	**-**	**(494)**
Deferred tax		**119**			**119**
At 30 June 2014		**49,029**	**1,000**	**(21,111)**	**28,918**

Share-based Payment Reserve

The share-based payments reserve is 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.

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

Traffic Technologies Ltd and Controlled Entities
Statement of Cash Flows
For the year ended 30 June 2014

	Note	Consolidated 2014 Inflows / (Outflows) $'000	Consolidated 2013 Inflows / (Outflows) $'000
Cash flows from operating activities			
Receipts from customers		**45,024**	54,378
Payments to suppliers and employees		**(41,913)**	(52,291)
Transaction costs relating to acquisition of subsidiary		**(218)**	-
Interest received		**14**	12
Interest paid		**(1,540)**	(1,641)
Net cash provided by operating activities	20b	**1,367**	458
Cash flows from investing activities			
Proceeds from disposal of plant and equipment		**57**	15
Payment of development costs		**(1,385)**	(1,039)
Purchase of property, plant and equipment		**(158)**	(167)
Purchase of intangible assets		**(228)**	(182)
Purchase of business assets		**(3,608)**	(2,004)
Net cash used in investing activities		**(5,322)**	(3,377)
Cash flows from financing activities			
Proceeds from borrowings		**2,102**	4,321
Repayment of borrowings		**(4,346)**	(2,160)
Proceeds from share issues		**7,025**	-
Payment for share issue costs		**(494)**	-
Payment for finance facility fees		**(245)**	(150)
Net cash provided by financing activities		**4,042**	2,011
Net increase / (decrease) in cash and cash equivalents		**87**	(908)
Cash and cash equivalents at beginning of the financial year		**681**	1,589
Cash and cash equivalents at end of the financial year	20a	**768**	681

The 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 2014 was authorised for issue in accordance with a resolution of the Directors on 27 August 2014. 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 Class Order 98/0100. The Company is an entity to which the Class Order applies.

Clarification of terminology used in statement of comprehensive income

Under the requirements of AASB 101 *Presentation of Financial Statements*, expenses (apart from finance costs) must be classified according to either the nature (type) of the expense or the function (activity to which the expense relates). Expenses have been classified using the nature classification as it more accurately reflects the type of operations undertaken.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New Accounting Standards for Application in Future Periods

Consolidated financial statements

The Group adopted the following Australian Accounting Standards, together with the relevant consequential amendments arising from related Amending Standards, from the mandatory application date of 1 January 2013:

- AASB 10: *Consolidated Financial Statements*;
- AASB 12: *Disclosure of Interests in Other Entities*; and
- AASB 127: *Separate Financial Statements*.

AASB 10 provides a revised definition of "control" and may result in an entity having to consolidate an investee that was not previously consolidated and/or deconsolidate an investee that was consolidated under the previous accounting pronouncements.

The first-time application of AASB 10 has not resulted in any significant changes to the Group's financial statements.

Employee benefits

The Group adopted AASB 119: *Employee Benefits* (September 2011) and AASB 2011–10: *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* from the mandatory application date of 1 January 2013. The Group has applied these Standards retrospectively in accordance with AASB 108: *Accounting Policies Changes in Accounting Estimates and Errors* and the transitional provisions of AASB 119.

The adoption of these Standards has not resulted in any changes to the accounting for employee benefits that would significantly impact amounts recognised in the Group's financial statements.

Fair value measurement

AASB 13 establishes a single source of guidance under Australian Accounting Standards for all fair value measurements. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under Australian Accounting Standards. AASB 13 defines fair value as an exit price. As a result of the guidance in AASB 13, the Group re-assessed its policies for measuring fair values, in particular its valuation inputs such as non-performance risk for fair value measurement of liabilities. AASB 13 also requires additional disclosures.

Application of AASB 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 18.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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. A list of the subsidiaries is provided in Note 22.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group 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.

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 various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

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.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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, including those arising from unrecouped tax losses, 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. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised in the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

Significant accounting estimates and assumptions

Estimated impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in the estimation of recoverable amount and the carrying amount of goodwill including a sensitivity analysis are discussed in note 12.

Long service leave provision

As discussed in note 1(r), 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Depreciation charges are disclosed in note 11.

Maintenance warranty

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. The related carrying amounts are disclosed in note 15.

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:

(i) 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 and generally title has passed (for shipped goods this is the bill of lading date).

(ii) 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.

(iii) Interest revenue

Interest revenue 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Income tax and other taxes

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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, 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 and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference 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.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

Income taxes relating to items recognised directly in equity are recognised in equity.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation

The Company and all its wholly owned Australian entities are part of a tax consolidated group as of 1 July 2005 under Australian taxation law.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Traffic Technologies Ltd is the head entity in the tax consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'stand alone taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 4 to the financial statements. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

k) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in the statement of comprehensive income as incurred.

Buildings are measured at cost less accumulated depreciation on buildings.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	2014	2013
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

The assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each financial year end.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

l) 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. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. 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.

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.*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 its 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.

m) 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 (see note 1(n) for methodology). 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.

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 (2013: 5 years). The amortisation is recognised in the statement of comprehensive income in the line item ‘depreciation, amortisation and impairment expense’.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

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 (2013: 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

Purchased software development is assessed to have a finite life and is amortised over a period of 1-4 years (2013: 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 (2013: 3-10 years).

Brand names

Brand names acquired in business combinations are assessed to have a finite life and are amortised over a period of 10 years (2013: 10 years).

n) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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.

p) 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.

q) Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its interest rate risk exposures, including interest rate swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the statement of comprehensive income immediately.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swap contracts are determined by reference to market values for similar instruments.

r) Provisions and employee benefits

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.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

(i) 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.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

(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. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

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.

s) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) 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.

u) 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:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other 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.

v) 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. 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 accordance with AASB 139 in the statement of comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) 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”.

2. REVENUES

	Consolidated 2014 $'000	Consolidated 2013 $'000
(a) Revenue		
Sale of goods	**40,064**	45,205
Bank interest receivable	**14**	12
Total revenue	**40,078**	45,217
(b) Other income		
Fair value of interest rate contracts	**58**	-
Net gain on disposal of fixed assets	**43**	6
Other income	**129**	28
Total other income	**230**	34

3. EXPENSES

	Consolidated 2014 $'000	Consolidated 2013 $'000
(a) Employee related expenses		
Wages and salaries	**8,885**	8,484
Superannuation (defined contribution)	**981**	906
Other employee benefits expense	**4,674**	3,949
	14,540	13,339
(b) Other expenses		
Administrative costs	**1,303**	1,928
Public company costs	**295**	346
	1,598	2,274
(c) Depreciation, amortisation and impairment expense		
Depreciation of non-current assets:		
Plant and equipment	**353**	326
Office furniture and fittings	**91**	83
Motor vehicles	**91**	122
Land and buildings	**9**	9
Leasehold improvements	**27**	24
	571	564
Amortisation of non-current assets:		
Development costs	**612**	356
Type approvals	**562**	496
Software costs	**255**	228
Patents and trademarks	**52**	60
Brand names	**48**	48
	1,529	1,188
Total depreciation and amortisation expense	**2,100**	1,752
(d) Finance costs		
Amortisation of capitalised transaction costs	**178**	150
Bank loans and overdrafts	**1,526**	1,452
Lease interest	**53**	63
Fair value of interest rate contracts	**-**	109
Other	**19**	17
Total finance costs	**1,776**	1,791
(e) Research and development costs		
Research and development costs charged directly to cost of sales in profit or loss	**11**	26

4. INCOME TAX

	Consolidated 2014 $'000	Consolidated 2013 $'000
(a) Income tax expense / (benefit)		
The major components of income tax expense / (benefit) are:		
Statement of Comprehensive Income		
Current income tax		
Current income tax charge	**6**	-
Deferred income tax		
Relating to origination and reversal of temporary differences	**183**	(569)
Income tax expense/(benefit) reported in the statement of comprehensive income	**189**	(569)
(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate		
Accounting profit / (loss) before income tax	**(983)**	2,523
Prima facie income tax expense/(benefit) at the Group's statutory income tax rate of 30% (2013: 30%)	**(295)**	757
Losses not recognised	**478**	-
Capitalised intangibles	**-**	(783)
Recognition of losses not previously recognised	**-**	(465)
Recoupment of losses not previously recognised	**-**	(182)
Not deductible in determining taxable profit	**-**	104
Non-refundable foreign tax	**6**	-
Aggregate income tax expense / (benefit)	**189**	(569)

4. INCOME TAX (continued)

(c) Deferred tax balances

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

30 June 2014	**Consolidated**				
	Opening balance $'000	Charged/ (credited) to income $'000	Charged to equity $'000	Acquisition $'000	Closing balance $'000
Temporary differences					
Intangible assets	**(1,000)**	**(18)**	**-**	**83**	**(935)**
Property, plant and equipment	**60**	**6**	**-**	**-**	**66**
Employee provisions	**708**	**2**	**-**	**158**	**868**
Warranty provisions	**30**	**(6)**	**-**	**-**	**24**
Doubtful debts	**-**	**(4)**	**-**	**11**	**7**
Credit notes	**27**	**(17)**	**-**	**-**	**10**
Foreign exchange	**-**	**(9)**	**-**	**-**	**(9)**
Other capital expenditure	**84**	**(72)**	**119**	**-**	**131**
Other accruals and provisions	**151**	**(65)**	**-**	**13**	**99**
	60	**(183)**	**119**	**265**	**261**
Unused tax losses	**1,408**	**-**	**-**	**-**	**1,408**
	1,468	**(183)**	**119**	**265**	**1,669**

30 June 2013	**Consolidated**				
	Opening balance $'000	Charged/ (credited) to income $'000	Charged to equity $'000	Acquisition $'000	Closing balance $'000
Temporary differences					
Intangible assets	(1,064)	64	-	-	(1,000)
Property, plant and equipment	99	(39)	-	-	60
Employee provisions	695	13	-	-	708
Warranty provisions	39	(9)	-	-	30
Credit notes	14	13	-	-	27
Other capital expenditure	133	(49)	-	-	84
Other accruals and provisions	358	(207)	-	-	151
	274	(214)	-	-	60
Unused tax losses	625	783	-	-	1,408
	899	569	-	-	1,468

	Consolidated 2014 $'000	Consolidated 2013 $'000
The following tax losses have not been recognised as a deferred tax asset:		
Tax losses – revenue	**1,468**	803
Tax losses – capital	**100**	100
Carried forward tax offsets	**656**	300
Total deferred tax assets	**2,224**	1,203

4. INCOME TAX (continued)

"Tax losses – revenue" are available to carry forward against future revenue-related profits (but not against capital related profits) without expiry. The Company remains cautious about the economic outlook and has not therefore recorded all its tax losses as a deferred tax asset.

Unrecognised temporary differences

At 30 June 2014 there are no unrecognised temporary differences associated with the Group's investment in subsidiaries or associates as the Group has no liability for additional taxation should unremitted earnings be remitted (2013: $nil).

(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 21.

(e) Nature of tax funding and tax sharing agreements

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing arrangement with the head entity. Under the terms of the tax funding arrangement, Traffic Technologies Ltd and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group. The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax consolidated group. The effect of the tax sharing agreement is that each member's liability for the tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding agreement.

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 2014 $'000**	Consolidated 2013 $'000
For basic and diluted earnings per share:		
Net profit/(loss) attributable to ordinary equity holders of the parent	**(1,172)**	3,092

(b) **Weighted average number of shares**

	Consolidated 2014 Thousands	Consolidated 2013 Thousands
Weighted average number of ordinary shares used in calculating basic earnings per share	**238,958**	177,710
Weighted average number of ordinary shares adjusted for the effect of dilution	**238,958**	177,710

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 2014 (2013: 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. BUSINESS COMBINATION

(a) Summary of Acquisition

On 17 December 2013 the parent entity acquired 100% of the issued share capital of Quick Turn Circuits Pty Ltd (QTC), a manufacturer and supplier 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. QTC is an excellent strategic fit with the Group's current traffic signals and intersection business and provides the Group with the ability to exploit the proprietary technology owned by QTC.

(b) Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	
Cash paid	4,000
Total purchase consideration	4,000

(c) The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Cash	392
Receivables	663
Inventories	1,343
Plant and equipment	121
Intangible assets	45
Deferred tax asset	265
Payables	(517)
Provision for employee benefits	(502)
Hire Purchase liability	(53)
Net identifiable assets acquired	1,757
Intellectual property	2,224
Goodwill	19
Net assets acquired	4,000

(d) Revenue and profit contribution

The acquired business contributed revenues of $2.1m and net profit of $0.4m to the Group for the period from 17 December 2013 to 30 June 2014. If the acquisition had occurred on 1 July 2013, consolidated revenue and loss for the financial year ended 30 June 2014 would have been $42.7m and $1.0m respectively.

(e) Purchase consideration – cash outflow

	$'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	4,000
Less: Cash balances acquired	(392)
Outflow of cash – investing activities	3,608

6. BUSINESS COMBINATIONS (continued)

(f) Acquisition-related costs

Acquisition-related costs of $218,000 are included in other expenses in profit or loss and in investing cash flows in the statement of cash flows.

7. DIVIDENDS

	2014 $'000	2013 $'000
(a) Ordinary shares		
Interim dividend for the year ended 30 June 2013 of 0.2 cents	**-**	**352**
Final dividend for the year ended 30 June 2013 of 0.2 cents	**364**	**-**
	364	**352**
(b) Dividends not recognised at the end of the reporting period		
Proposed final dividend for the year ended 30 June 2013 of 0.2 cents	**-**	**364**
(c) Franked dividends		
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2013: 30%)	**5,792**	**5,388**

During the financial year ended 30 June 2013 the Company 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

8. TRADE AND OTHER RECEIVABLES (Current)

	Consolidated 2014 $'000	Consolidated 2013 $'000
Trade receivables	**7,752**	7,974
Allowance for impairment loss (a)	**(21)**	(1)
	7,731	7,973
Prepayments	**777**	473
Other receivables	**6**	160
	8,514	8,606

8. TRADE AND OTHER RECEIVABLES (Current) (continued)

(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 $16,000 (2013: $2,000) 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 2014 $'000**	Consolidated 2013 $'000
Balance at the beginning of the year	**1**	1
Acquisition of subsidiary	**5**	-
Charge for the year	**16**	2
Amounts recovered during the year	**(1)**	(2)
Balance at the end of the year	**21**	1

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
2014	**Group**	**7,752**	**4,502**	**2,579**	**-**	**342**	**-**	**308**	**21**
2013	Group	7,974	3,916	2,690	-	1,127	-	240	1

**** - Table Legend***

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

Receivables past due but not considered impaired are: Group $3,229,000 (2013: $4,057,000). 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.

(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 18.

9. INVENTORIES (Current)

	Consolidated 2014 $'000	Consolidated 2013 $'000
Raw materials	**5,321**	4,910
Work in progress	**230**	223
Finished goods	**4,687**	4,407
	10,238	9,540

Inventory write-downs recognised as an expense totalled $Nil (2013: $Nil) for the Group. During the year, inventory write-downs of $31,000 were reversed following the disposal of associated aged/impaired inventory (2013: $17,000). This benefit is included in the statement of comprehensive income in changes in inventories of finished goods and work in progress.

10. OTHER FINANCIAL ASSETS (Non-current)

	Consolidated 2014 $'000	Consolidated 2013 $'000
Listed investments, at market value	**1**	1
	1	1

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2014 $'000	Consolidated 2013 $'000
a) Carrying values		
Plant and equipment:		
At cost	**4,778**	4,649
Accumulated depreciation*	**(3,619)**	(3,254)
Total plant and equipment	**1,159**	1,395
Plant and equipment under lease:		
At cost	**239**	239
Accumulated depreciation*	**(118)**	(76)
Total plant and equipment	**121**	163
Office furniture and fittings		
At cost	**1,409**	1,203
Accumulated depreciation*	**(1,214)**	(1,074)
Total office furniture and fittings	**195**	129
Office furniture and fittings under lease		
At cost	**82**	82
Accumulated depreciation*	**(53)**	(33)
Total office furniture and fittings	**29**	49
Motor vehicles		
At cost	**434**	478
Accumulated depreciation*	**(383)**	(389)
Total motor vehicles	**51**	89
Motor vehicles under lease		
At cost	**546**	546
Accumulated depreciation*	**(241)**	(186)
Total motor vehicles under lease	**305**	360
Buildings		
At cost	**208**	208
Accumulated depreciation	**(73)**	(64)
Total land and buildings	**135**	144
Leasehold improvements		
At cost	**830**	772
Accumulated depreciation*	**(651)**	(624)
Total leasehold improvements	**179**	148
Total property, plant and equipment		
At cost	**8,526**	8,177
Accumulated depreciation*	**(6,352)**	(5,700)
Total net book value	**2,174**	2,477

** - Includes impairment*

11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

CONSOLIDATED	Plant & Equipment $'000	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 2014									
Balance at the beginning of the year, net of accumulated depreciation	**1,395**	**163**	**129**	**49**	**89**	**360**	**144**	**148**	**2,477**
Acquisition of subsidiary	**59**	**-**	**62**	**-**	**-**	**-**	**-**	**-**	**121**
Additions	**16**	**-**	**87**	**-**	**-**	**-**	**-**	**58**	**161**
Disposals	**-**	**-**	**(12)**	**-**	**(2)**	**-**	**-**	**-**	**(14)**
Depreciation expense	**(311)**	**(42)**	**(71)**	**(20)**	**(36)**	**(55)**	**(9)**	**(27)**	**(571)**
Balance at the end of the year, net of accumulated depreciation	**1,159**	**121**	**195**	**29**	**51**	**305**	**135**	**179**	**2,174**
Year ended 30 June 2013									
Balance at the beginning of the year, net of accumulated depreciation	1,421	134	125	70	142	292	153	124	2,461
Additions	267	69	66	-	6	133	-	48	590
Disposals	(7)	-	-	-	-	(2)	-	-	(10)
Depreciation expense	(286)	(40)	(62)	(21)	(59)	(63)	(9)	(24)	(564)
Balance at the end of the year, net of accumulated depreciation	1,395	163	129	49	89	360	144	148	2,477

11. 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 14.

12. GOODWILL AND INTANGIBLE ASSETS

a) Carrying values

	Consolidated 2014 $'000	Consolidated 2013 $'000
Development costs		
At cost	**6,049**	3,037
Accumulated amortisation	**(2,011)**	(1,399)
Accumulated impairment	**(400)**	(400)
	3,638	1,238
Type approval certification		
At cost	**5,424**	4,824
Accumulated amortisation	**(3,439)**	(2,877)
	1,985	1,947
Software costs		
At cost	**1,508**	1,283
Accumulated amortisation	**(1,300)**	(1,045)
	208	238
Patents and trademarks		
At cost	**374**	326
Accumulated amortisation	**(276)**	(224)
	98	102
Brand names		
At cost	**477**	477
Accumulated amortisation	**(343)**	(295)
	134	182
Goodwill		
At cost	**33,042**	33,023
Accumulated impairment	**(2,488)**	(2,488)
	30,554	30,535
Total intangibles		
At cost	**46,874**	42,970
Accumulated amortisation*	**(10,257)**	(8,728)
Total net book value	**36,617**	34,242

* - *Includes impairment*

12. GOODWILL AND INTANGIBLE ASSETS (continued)

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

	Consolidated						
	Development Costs $'000	**Type Approval $'000**	**Software Costs $'000**	**Patents and Trademarks $'000**	**Brands $'000**	**Goodwill $'000**	**TOTAL $'000**
At 1 July 2013 net book value	**1,238**	**1,947**	**238**	**102**	**182**	**30,535**	**34,242**
Acquisition of subsidiary	**2,224**	**-**	**45**	**-**	**-**	**19**	**2,288**
Additions	**788**	**600**	**180**	**48**	**-**	**-**	**1,616**
Amortisation	**(612)**	**(562)**	**(255)**	**(52)**	**(48)**	**-**	**(1,529)**
At 30 June 2014 net book value	**3,638**	**1,985**	**208**	**98**	**134**	**30,554**	**36,617**
At 1 July 2012 net book value	1,440	1,558	194	127	230	30,535	34,084
Additions	154	885	272	35	-	-	1,346
Amortisation	(356)	(496)	(228)	(60)	(48)	-	(1,188)
At 30 June 2013 net book value	1,238	1,947	238	102	182	30,535	34,242

12. GOODWILL AND INTANGIBLE ASSETS (continued)

c) Impairment tests for goodwill and intangible assets with indefinite useful lives

(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 for impairment testing.

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 pre-tax discount rate applied to the cash flow projections is 11.5% (2013:11%), which is the Group's WACC. The growth rate used to extrapolate the cash flows for periods beyond the five year period is 3% (2013: 3%).

The Group believes that the growth rate selected is justified based on expected growth in demand due to increased road infrastructure investment in line with government projections.

(ii*) Carrying amount of goodwill and indefinite life intangible assets allocated to the cash-generating unit*

	Consolidated 2014 $'000	Consolidated 2013 $'000
Signals	**30,535**	30,535
Controllers	**19**	-
Total	**30,554**	30,535

(iii*) Key assumptions used in value in use calculations for the Signals and Controllers cash-generating units at 30 June 2014 and 30 June 2013*

The Group has based its cash flow projections on budgets prepared by management.

The cash flows have been extrapolated using the expected growth rate of 5% for the Signals and Controllers cash-generating units (2013: 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.

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 projections are based on the gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. The Group believes that efficiency improvements of up to 5% per year can be reasonably achieved in the Signals and Controllers cash generating units.

The key assumptions used in the value in use calculations represent management's best estimates at 30 June 2014. 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.

13. TRADE AND OTHER PAYABLES

	Consolidated 2014 $'000	Consolidated 2013 $'000
Current		
Trade creditors *(i)*	**4,082**	4,071
Sundry creditors and accruals *(ii)*	**1,283**	1,452
Deferred income	**78**	327
Current trade and other payables	**5,443**	5,850
Non-current		
Sundry creditors and accruals *(ii)*	**-**	23
Non-current trade and other payables	**-**	23

(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.

Non-current
Non-current sundry creditors and accruals are long-term, unamortised property lease incentives ranging from 2-5 years maturity.

(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 18.

14. INTEREST BEARING LOANS AND BORROWINGS

	Nominal interest rate	Year of maturity	Consolidated 2014 $'000	Consolidated 2013 $'000
Current borrowings				
Term bank facility (secured) *(i)*	BBR + 4.25%	2015	**1,000**	-
Working capital facility (secured) *(ii)*	BBR + 3.0%	2015	**3,800**	3,800
Lease liabilities	4.1% - 11.0%	2014-2015	**228**	242
			5,028	4,042
Non-current borrowings				
Term bank facility (secured) *(i)*	BBR + 4.25%	2015	**17,504**	20,571
Lease liabilities	4.1% - 11.0%	2015-2017	**285**	463
			17,789	21,034

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	Consolidated 2014 $'000	Consolidated 2013 $'000
Term bank facility balance comprises:		
Term bank facility – principal loan amounts payable	**18,700**	20,700
Less: capitalised transaction costs	**(196)**	(129)
	18,504	20,571
Current borrowings	**1,000**	-
Non-current borrowings	**17,504**	20,571
	18,504	20,571

Terms and conditions relating to the above financial instruments:

(i) *Term Facility*
The term facility has been extended for repayment on 1 October 2015 (previously 1 October 2014) 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 combination of these facilities must not exceed $6.0m at any point in time. The facility has been extended for repayment on 1 October 2015 (previously 1 October 2014) 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 18.

(iv) During the current and prior financial year, there were no defaults or breaches on any of the loans.

(v) Refer to note 20(c) for details regarding financing facilities available.

15. PROVISIONS

	Consolidated 2014 $'000	Consolidated 2013 $'000
Current		
Annual leave	**1,117**	1,008
Long service leave	**1,115**	993
Maintenance warranties	**80**	100
Property cost provisions	**-**	250
	2,312	2,351
Non-current		
Long service leave	**441**	166
	441	166
Total provisions	**2,753**	2,517

(a) Movements in provisions

Movements in each class of provisions during the financial year, other than provisions relating to employee benefits, are set out below:

	Consolidated $'000
Maintenance Warranties	
At 1 July 2013	**100**
Unused amounts reversed	**(20)**
At 30 June 2014	**80**
Current 2014	**80**
Current 2013	100

(b) Nature and timing of provision for maintenance 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.

16. CONTRIBUTED EQUITY

	Consolidated 2014 $'000	Consolidated 2013 $'000
Ordinary shares	**49,029**	42,015
	49,029	42,015

	No. Of Shares '000	**$'000**
a) Ordinary shares		
At 1 July 2012	176,122	41,663
Shares issued under Dividend Reinvestment Plan 1,545,841 new ordinary shares issued at 6.2 cents per share – 20 March 2013	1,546	96
Shares issued under Shortfall Placement Agreement 4,135,610 new ordinary shares issued at 6.2 cents per share – 20 March 2013	4,136	256
At 30 June 2013	**181,804**	**42,015**
Shares issued under Dividend Reinvestment Plan 1,177,296 new ordinary shares issued at 6.6 cents per share – 20 September 2013	1,177	78
Shares issued under Shortfall Placement Agreement 4,765,199 new ordinary shares issued at 6.0 cents per share – 20 September 2013	4,765	286
Share Placement 35,810,568 new ordinary shares issued at 8.0 cents per share – 7 November 2013	35,811	2,865
Share Placement 52,000,000 new ordinary shares issued at 8.0 cents per share – 5 December 2013	52,000	4,160
Share issue costs	-	(494)
Deferred tax		119
At 30 June 2014	**275,557**	**49,029**

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.

16. CONTRIBUTED EQUITY (continued)

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 2013. The capital structure of the Group consists of debt, which includes borrowings disclosed in note 14, cash and cash equivalents disclosed in note 20 and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in the Statement of Changes in Equity.

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 based on continuing operations at 30 June 2014 and 2013 were as follows:

	Consolidated 2014 $'000	Consolidated 2013 $'000
Total borrowings (i)	**22,817**	25,076
Cash and cash equivalents	**(768)**	(681)
Net debt	**22,049**	24,395
Equity (ii)	**28,918**	23,440
Total capital	**50,967**	47,835
Gearing ratio	**43%**	51%

(i) Total borrowings includes long and short-term interest bearing liabilities, as detailed in note 14.
(ii) Equity includes all capital and reserves.

17. DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated 2014 $'000	Consolidated 2013 $'000
Current liabilities		
Interest rate swap contract	**50**	-
Non-current liabilities		
Interest rate swap contract	**-**	109

17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swap

Interest bearing loans of the Group currently bear an average floating interest rate of 2.7% (2013: 3.3%). In order to protect against rising interest rates the Group has entered into an interest rate swap contract under which it has a right to receive interest at variable rates and to pay interest at fixed rates. The swap covers $10.35m of the notional principal of the term debt outstanding. The fixed interest rate on the swap is 3.38% and the floating interest rate on the interest rate swap is the Australian BBR. The interest rate swap expires on 18 February 2015. The term loan, whose interest is hedged through the interest rate swap, is fully disclosed in note 14. The interest rate swap settles on a monthly basis. The interest payments on the term facility loan and the interest rate swap occur simultaneously. The difference, if any, is recognised directly in the statement of comprehensive income. The notional principal amount and period of expiry of the interest rate swap is as follows:

	Consolidated 2014 $'000	Consolidated 2013 $'000
6 – 12 months	**10,350**	-
1 – 2 years	**-**	10,350
Total	**10,350**	10,350

18. 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 enters into derivative transactions, principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance, where appropriate. The Group has various other 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 cash flow interest rate risk, liquidity risk, credit risk and foreign exchange rate 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 foreign exchange 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.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Primary responsibility for identification and control of financial risks rests with the Audit & 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 (2013: fair values).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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 14.

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 2014 $'000	Consolidated 2013 $'000
Financial assets		
Cash and cash equivalents	**768**	681
Other financial assets	**1**	1
	769	682
Financial liabilities		
Financial liabilities measured at amortised cost		
Term bank facility (net of capitalised transaction costs)	**18,504**	20,571
Working capital facility	**3,800**	3,800
	22,304	24,371
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	**50**	109
	22,354	24,480
Net exposure	**(21,585)**	(23,798)

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group's policy has been to manage its finance costs using a mix of fixed and variable rate debt. The Group has entered into an interest rate swap, in which the Group agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. The swap, which is designated to hedge underlying debt obligations, expires on 18 February 2015. At 30 June 2014 45% of the Group's borrowings were at a fixed rate of interest (2013: 41%).

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) Increase / (Decrease)		**Other Equity Reserves Increase / (Decrease)**	
Judgments of reasonably possible movements:	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
Group				
+1% (100 basis points)	**127**	139	**-**	-
- 0.5% (50 basis points)	**(64)**	(53)	**-**	-

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 (2013: nil).

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets and derivative financial instruments. 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.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

Price risk

The Group's exposure to equity securities price risk is minimal. Equity price risk arises from investments in equity securities, which are carried at cost as an approximation to fair value. The price risk is immaterial in terms of a possible impact on profit or loss or total equity and as such a sensitivity analysis has not been completed.

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 20(c) 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 2014, 1.0% of the Group's debt is due to be retired in less than one year (2013: 1.0%), 97.7% of the Group's debt will mature within 18 months' time (2013: 97.1%) and the balance of the Group's debt will mature in more than 18 months but not more than 5 years.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date in which the Group can be required to pay. The table includes both interest and principal cash flows. Cash flows for financial liabilities without fixed timing of amount are based on conditions existing at 30 June.

The remaining contractual maturities of the Group's financial liabilities are:

	Consolidated	
	2014	2013
	$'000	$'000
6 months or less	**6,372**	6,987
6 – 12 months	**981**	887
1 – 5 years	**23,179**	25,462
Over 5 years	**-**	-
	30,532	33,336

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 segments that reflects management's expectations of expected settlement of financial assets and liabilities, as illustrated in the tables below.

Year ended 30 June 2014	**≤ 6 months $'000**	**6-12 months $'000**	**1 – 5 years $'000**	**> 5 years $'000**	**Total $'000**
Consolidated					
Financial assets					
Cash & cash equivalents	**768**	**-**	**-**	**-**	**768**
Trade & other receivables	**8,514**	**-**	**-**	**-**	**8,514**
	9,282	**-**	**-**	**-**	**9,282**
Financial liabilities					
Trade & other payables	**5,443**	**-**	**-**	**-**	**5,443**
Interest bearing loans & borrowings	**228**	**-**	**22,589**	**-**	**22,817**
Derivative financial instruments	**50**	**-**	**-**	**-**	**50**
Bank guarantees	**-**	**-**	**306**	**-**	**306**
	5,721	**-**	**22,895**	**-**	**28,616**
Net maturity	**3,561**	**-**	**(22,895)**	**-**	**(19,334)**

Year ended 30 June 2013	**≤ 6 months $'000**	**6-12 months $'000**	**1 – 5 years $'000**	**> 5 years $'000**	**Total $'000**
Consolidated					
Financial assets					
Cash & cash equivalents	681	-	-	-	681
Trade & other receivables	8,596	-	10	-	8,606
	9,277	-	10	-	9,287
Financial liabilities					
Trade & other payables	5,850	-	-	-	5,850
Interest bearing loans & borrowings	242	-	24,834	-	25,076
Derivative financial instruments	-	-	109	-	109
Bank guarantees	-	-	680	-	680
	6,092	-	25,623	-	31,715
Net maturity	3,185	-	(25,613)	-	(22,428)

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Derivative financial liabilities maturity

Due to the unique characteristics and risks inherent to derivative instruments, the Group (through the Group Treasury Function) separately monitors the liquidity risk arising from transacting derivative instruments.

The table below details the liquidity arising from derivative liabilities held by the Group at balance date. Net settled derivative liabilities comprise an interest rate swap contract that is used as an economic hedge of the Group's term facility.

	≤ 6 months $'000	6-12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
Year ended 30 June 2014					
Derivative liabilities – net settled	-	**50**	**-**	**-**	**50**
Net maturity	-	**50**	**-**	**-**	**50**
Year ended 30 June 2013					
Derivative liabilities – net settled	-	**-**	109	-	109
Net maturity	-	**-**	109	-	109

Fair value measurements

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

– derivative financial instruments;

– available-for-sale financial assets;

a. **Fair Value Hierarchy**

AASB 13: *Fair Value Measurement* requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	**Level 2**	**Level 3**
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Valuation techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

– *Market approach:* valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

– *Income approach:* valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

– *Cost approach:* valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

		30 June 2014			
	Note	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Recurring fair value measurements					
Financial assets					
Available-for-sale financial assets					
– shares in listed companies	10	1	-	-	1
Total financial assets recognised at fair value on a recurring basis		1	-	-	1
Liabilities					
Interest rate swap	17	-	50	-	50
Total liabilities recognised at fair value		-	50	-	50

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

		30 June 2013			
	Note	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Recurring fair value measurements					
Financial assets					
Available-for-sale financial assets:					
– shares in listed companies	10	1	-	-	1
Total financial assets recognised at fair value		1	-	-	1
Liabilities					
Interest rate swap	17	-	109	-	109
Total liabilities recognised at fair value		-	109	-	109

b. **Valuation Techniques and Inputs Used to Measure Level 2 Fair Values**

Description	**Fair Value at 30 June 2014 $000**	**Valuation Technique**	**Inputs Used**
Financial Liabilities			
Interest rate swaps	50	Income approach using discounted cash flow methodology	Market swap rate

There were no changes during the period in the valuation techniques used by the Group to determine Level 2 fair values.

19. EXPENDITURE COMMITMENTS

	Consolidated 2014 Minimum rentals $'000	Consolidated 2013 Minimum rentals $'000
a) Operating leases - properties		
Less than one year	**1,298**	1,661
Later than one year but less than five years	**1,585**	994
	2,883	2,655

The Group leases a number of warehouse, factory and office facilities under operating leases. The leases typically run for periods of 1 to 5 years with an option to renew the lease after that date.

	Consolidated 2014 Minimum rentals $'000	Consolidated 2013 Minimum rentals $'000
b) Finance leases and hire purchase		
Less than one year	**294**	326
Later than one year but less than five years	**287**	492
	581	818
Less future finance charges	**(68)**	(113)
Total finance lease and hire purchase liabilities	**513**	705
Reconciled to:		
Current liability	**228**	242
Non-current liability	**285**	463
	513	705

The Group has entered into finance and hire purchase contracts in respect of various items of plant and machinery and motor vehicles. These finance and hire purchase contracts expire within 1 to 5 years.

20. STATEMENT OF CASH FLOWS

a) Reconciliation of Cash

	Consolidated 2014 $'000	Consolidated 2013 $'000
Cash at bank and in hand	**768**	681
	768	681

Cash at bank earns interest at floating rates based on daily bank deposit rates.

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

	Consolidated 2014 $'000	Consolidated 2013 $'000
Net profit/(loss)	**(1,172)**	3,092
Adjustments for:		
Depreciation, amortisation and impairment of non-current assets	**2,100**	1,753
Fair value of interest rate contracts	**(58)**	109
Profit on sale of fixed assets	**(43)**	(6)
Foreign exchange gain	**(21)**	(52)
Amortisation of capitalised finance fees	**178**	152
Doubtful debts expense	**20**	-
Stock obsolescence (benefit)/expense	**(31)**	(17)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**754**	5,731
(Increase)/decrease in inventories	**645**	(2,878)
Increase/(decrease) in trade and other payables	**(788)**	(6,878)
(Increase)/decrease in deferred tax assets	**(201)**	(571)
Increase/(decrease) in provisions	**(16)**	23
Net cash provided by operating activities	**1,367**	458

Non cash financing and investing activities

During the year the Group acquired property, plant and equipment with an aggregate value of $Nil (2013: $202,578) by means of finance leases. These acquisitions are not reflected in the Statement of Cash Flows.

20. STATEMENT OF CASH FLOWS (continued)

c) Financing facilities available

	Consolidated 2014 $'000	Consolidated 2013 $'000
Total facilities at reporting date		
Term facility	**18,700**	20,700
Working capital facility comprising:		
- revolving cash advance facility	**4,500**	3,800
-bank overdraft facility	**1,000**	1,000
- bank guarantee facility	**500**	1,200
	24,700	26,700
Facilities used at reporting date		
Term facility	**18,700**	20,700
Working capital facility comprising:		
- revolving cash advance facility	**3,800**	3,800
-bank overdraft facility	**-**	-
- bank guarantee facility	**306**	680
	22,806	25,180
Facilities unused at reporting date		
Term facility	**-**	-
Working capital facility comprising:		
- revolving cash advance facility	**700**	-
-bank overdraft facility	**1,000**	1,000
- bank guarantee facility	**194**	520
	1,894	1,520

21. CLAIMS AND CONTINGENCIES

Guarantees

As detailed in note 22, 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 14, 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.

22. RELATED PARTY DISCLOSURES

The ultimate parent

Traffic Technologies Ltd is the ultimate parent Company.

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.

Name of Subsidiary	Principal Place of Business	Ownership Held by 2014 %	Interest the Group 2013 %
Traffic Technologies Signal & Hardware Division Pty Ltd	Australia	100	100
Traffic Technologies Traffic Management Division Pty Ltd	Australia	100	100
De Neefe Pty Ltd	Australia	100	100
Traffic Technologies Traffic Hire Pty Ltd	Australia	100	100
Sunny Sign Company Pty Ltd	Australia	100	100
Pro-Tech Traffic Management Pty Ltd	Australia	100	100
KJ Aldridge Investments Pty Ltd	Australia	100	100
Aldridge Traffic Group Pty Ltd	Australia	100	100
Excelsior Diecasting Pty Limited	Australia	100	100
Aldridge Traffic Systems Pty Ltd	Australia	100	100
Aldridge Plastics Pty Ltd	Australia	100	100
Quick Turn Circuits Pty Ltd	Australia	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 Class Order 98/1418.

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.

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.

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.

23. SUBSEQUENT EVENTS

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

24. AUDITOR'S REMUNERATION

Amounts received or due and receivable by:

	Consolidated 2014 $	Consolidated 2013 $
Audit or review of the financial report of the entity and any other entity in the Group		
- Moore Stephens Melbourne	**105,000**	95,000
	105,000	95,000

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Compensation of Key Management Personnel

(i) Remuneration 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	
	2014	2013
Compensation by Category:	**$**	$
Key Management Personnel		
Short-term employee benefits	**1,025,724**	1,070,406
Post employment benefits	**82,979**	86,188
Other long-term benefits	**28,392**	57,123
	1,137,095	1,213,717

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 2014 or at the date of this report (2013: 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.

e) Shareholdings of Key Management Personnel

Ordinary shares held in Traffic Technologies Ltd

30 June 2014	Balance at beginning of period 1 July 2013 No.	Granted as remuneration No.	On exercise of Options No.	Net change other No.	Balance at end of period 30 June 2014 No.
Directors					
Mr. Alan Brown	**3,294,932**	**-**	**-**	**99,847**	**3,394,779**
Mr. Con Liosatos	**15,063,919**	**-**	**-**	**145,000**	**15,208,919**
Mr. Mark Hardgrave	**1,548,388**	**-**	**-**	**-**	**1,548,388**
Total	**19,907,239**	**-**	**-**	**244,847**	**20,152,086**
Executives					
Mr. Peter Crafter	**10,000**	**-**	**-**	**-**	**10,000**
Total	**10,000**	**-**	**-**	**-**	**10,000**

30 June 2013	Balance at beginning of period 1 July 2012 No.	Granted as remuneration No.	On exercise of Options No.	Net change other # No.	Balance at end of period 30 June 2013 No.
Directors					
Mr. Alan Brown	3,191,965	-	-	102,967	3,294,932
Mr. Con Liosatos	15,063,919	-	-	-	15,063,919
Mr. Mark Hardgrave	-			1,548,388	1,548,388
Mr Ray Horsburgh	328,400	-	-	(328,400)	-
Total	18,584,284	-	-	1,322,955	19,907,239
Executives					
Mr. Peter Crafter	10,000	-	-	-	10,000
Total	10,000	-	-	-	10,000

 # - includes the appointment of Mr. Mark Hardgrave and the retirement of Mr. Ray Horsburgh.

26. 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 account for 14% of external revenue (2013: 8%). The next most significant customer accounts for 5% (2013: 6%) of external revenue.

Geographical information

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

Revenue by geographic location:

	Consolidated 2014 $'000	Consolidated 2013 $'000
Australia	**37,477**	41,863
Overseas	**2,601**	3,354
Total	**40,078**	45,217

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

27. PARENT ENTITY INFORMATION

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

	2014	**2013**
	$'000	**$'000**
Balance sheet		
Current assets	**8,013**	8,924
Total assets	**56,003**	52,879
Current liabilities	**49,173**	48,284
Total liabilities	**67,785**	66,996
Shareholders' equity		
Issued capital	**49,029**	42,015
Retained earnings	**(61,811)**	(57,132)
Share-based payments reserve	**1,000**	1,000
Total shareholders' equity	**(11,782)**	(14,117)
Loss for the year	**(4,315)**	(4,388)
Total comprehensive income	**(4,315)**	(4,388)
Guarantees entered into by the parent entity^	**306**	680

^ 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.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and accompanying notes, are in accordance with the *Corporations Act 2001* and:

    (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and

    (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date.

1. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

2. 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.

3. The remuneration disclosures included in pages 6 to 9 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2014, comply with section 300A of the *Corporations Act 2001*.

4. The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A.

The members of the Closed Group identified in note 22 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 22.

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

Alan Brown
Chairman

Melbourne
27 August 2014

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRAFFIC TECHNOLOGIES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Traffic Technologies Limited, which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1 a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Traffic Technologies Limited would be the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

a) the financial report of Traffic Technologies Limited is in accordance with the *Corporations Act 2001*, including:

   i) giving a true and fair view of the company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b) the financial reports also complies with *International Financial Reporting Standards* as disclosed in Note 1 (a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 4 to 8 of the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion, the Remuneration Report of Traffic Technologies Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

Moore Stephens

MOORE STEPHENS
Chartered Accountants

Nick Michael
Partner

Melbourne

27 August 2014

ASX Additional Information
As at 6 August 2014

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 6 August 2014.

a) Distribution of Equity Securities

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

	Ordinary Shares	
	Number of Holders	**Number of Shares**
1 - 1,000	149	18,155
1,001 - 5,000	39	106,853
5,001 - 10,000	64	544,359
10,001 - 100,000	477	21,403,650
100,001 and over	218	253,483,868
	947	275,556,885
Holdings less than a marketable parcel	212	284,577

b) Twenty Largest Holders

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

	Name	Ordinary Shares Number	Percentage
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	25,196,456	9.14%
2.	NATIONAL NOMINEES LIMITED	23,067,676	8.37%
3.	J P MORGAN NOMINEES AUSTRALIA LIMITED	14,951,193	5.43%
4.	LIOSATOS SUPERANNUATION FUND PTY LTD <LIOSATOS SUPER FUND A/C>*	11,862,162	4.30%
5.	GP MANAGEMENT P/L <G&R S/F A/C>	11,680,150	4.24%
6.	SEASPIN PTY LTD <APHRODITE A/C>	8,463,192	3.07%
7.	BANNABY INVESTMENTS PTY LTD <BANNABY SUPER FUND A/C>	7,560,607	2.74%
8.	DE LA HAYE SUPER FUND PTY LTD <DE LA HAYE SUPER FUND A/C>	6,428,000	2.33%
9.	WARNEET SUPER PTY LTD <WARNEET SUPER FUND A/C>	6,250,000	2.27%
10.	MR ROBERT MICHAEL WHYTE	6,250,000	2.27%
11.	PETHOL (VIC) PTY LTD <MACDY NO 5 SUPER FUND A/C>	6,078,708	2.21%
12.	BROWNLOW PTY LTD	5,557,622	2.02%
13.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	5,242,264	1.90%
14.	KENSINGTON CAPITAL MANAGEMENT PTY LTD	5,189,270	1.88%
15.	BNP PARIBAS NOMS PTY LTD <DRP>	4,970,191	1.80%
16.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	4,075,619	1.48%
17.	MR ADRIAN RICHARD CREEDON	4,000,000	1.45%
18.	MR ALAN JOHN BROWN + MRS PAULA JANET BROWN <A & P BROWN FAMILY S/F A/C>*	3,394,779	1.23%
19.	MR LAMBROU LIOSATAU*	3,346,757	1.21%
20.	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	3,117,000	1.13%
	Total	166,681,646	60.00%

* Associated with Directors.

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**
Acorn Capital Pty Limited	37,500,000	13.61
Contango Asset Management Limited	16,327,924	5.93
Mr. Con Liosatos*	15,208,919	5.52

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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