



ABN 21 080 415 407  
**Traffic Technologies Ltd.**  
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13 November 2015

Manager Companies  
Company Announcements Office  
ASX Limited  
Level 4, Securities Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir,

**Traffic Technologies Ltd**

Please find attached letter sent to shareholders today.

Yours faithfully,

Peter Crafter  
Company Secretary

13 November 2015

Dear Shareholder,

**IT IS IMPORTANT THAT YOU READ THIS LETTER WHICH CONTAINS  
 IMPORTANT INFORMATION ABOUT THE TRAFFIC TECHNOLOGIES LTD  
 ANNUAL GENERAL MEETING TO BE HELD ON 24 NOVEMBER 2015**

You may have recently received a letter from Warneet Super Pty Ltd (Warneet) about the Company's upcoming Annual General Meeting to be held on 24 November 2015 (2015 AGM).

I am confident that once you consider the information in this letter, you will agree with your Board's recommendation that you vote on the resolutions at the 2015 AGM as follows:

	For	Against	Abstain
Item 1 Approval of Remuneration Report	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 2 Board Spill Meeting	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Item 3 Approval of Employee Share Option Plan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 4 Re-election of Mr. Mark Hardgrave as a Director	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 5 Election of Mr. Garry Lowrey as a Director	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



## **Background**

This is the second attempt by Warneet in the past 12 months to destabilise the Board at your AGM.

Warneet has over recent months initiated various discussions with the Managing Director Con Liosatos seeking for him to purchase their shares in the Company at a significantly higher price than the current share price. Mr. Liosatos has rejected those discussions because he felt it was not in the interests of all shareholders and in some cases it would have involved Mr. Liosatos trading in the Company's shares during a share trading 'blackout' period, which is not permitted under the Company's Securities Trading Policy.

Warneet has approached several of TTI's major shareholders encouraging them to vote in a manner that the Board believes to be not in the best interests of shareholders as a whole.

Your Board and management is singularly focused on delivering on TTI's potential. Your Board is not satisfied with the recent financial performance of the business or its share price, however your Board is fully supportive of the efforts of TTI management in managing the business to drive better performance.

## **At no stage has Warneet offered any constructive suggestions on how they would improve the Company's performance**

We are always receptive to issues raised by any of our shareholders. However, in this instance Warneet's activities during the past 18 months have been an unnecessary distraction to the Board and senior management who have been focused on improving the Company's performance and restoring shareholder value.

Many of the actions being implemented by TTI management are being taken against a background of difficult trading conditions in a weakening economy. This has been a function of a lack of government expenditure on certain areas of infrastructure, project delays and a low Australian dollar resulting in higher import prices.

Government expenditure restraints and delays in granting approvals for new technology have resulted in project delays. These factors combined have impinged upon the operating performance during the past year. As shareholders will be aware, because the Company's products are involved in road safety, they must comply with the strict requirements of



Australian Standards and the Company must obtain approvals from each of the State road authorities before its products can be supplied and installed on the roads. The process involves rigorous testing and delays can occur outside the Company's control, for example for political reasons or as a result of decisions by State governments to change over to new products such as LED road lighting. The timing of the New South Wales traffic signals upgrade was, for example, delayed by privatisation of the NSW state road authority's maintenance arrangements.

Unfortunately the Company cannot control government processes and therefore the timing or size of projects that are undertaken. Shareholders should rest assured however that as a result of the actions that have been undertaken over the past years your Company now has:

- A competitively priced upgraded range of traffic signal products to supply into new and upgrade road projects as they proceed;
- A comprehensive range of both vehicle and pedestrian LED street lighting products which are now approved for use in Victoria, South Australia and the Northern Territory, with other states coming on shortly;
- A portfolio of very good existing contracts including some recently announced; and
- Very strong working relationships with state and local government authorities

### **Response to Warneet's Letter**

We comment on the specific concerns raised by Warneet as follows:

#### **1. Financial Performance of the Company**

Warneet's letter is dismissive of the significant improvement in the Company's financial performance in 2015 and ignores the improvement in profit and Earnings Per Share (EPS). In 2015 EBIT improved by 203%, whilst there was a positive turnaround of \$1.6m turning a loss into a net profit after tax with a corresponding turnaround in EPS.

Warneet has suggested that the New South Wales traffic signal upgrade is non-recurring as if it were the only large contract the Company is capable of winning. A significant part of the Company's revenue is project-based. Previous traffic signal upgrade projects have benefitted the Company's results in other years. The Company is aware that other traffic signal upgrades are planned by other State road authorities over the next 2-3 years and which are expected to benefit the Company's future results significantly. As noted above the Company has also

developed a range of new products and is in the process of diversifying its revenue base. LED lighting and electronic signage (Intelligent Transport Systems or 'ITS') are, for example, expected to be significant growth areas in the years ahead.

The Company acknowledges that debt levels remain too high. The Board and management believe this has been a significant factor in weighing down the Company's share price despite improved results in 2015. Accordingly, the Board and management have been working hard to find ways to reduce the level of the Company's debt. It should also be noted that the Company's debt has been significantly reduced from its peak, reducing by over 50% from \$46m to \$21.6m.

## **2. Management Remuneration and Director Fees**

Following the 2014 AGM we have taken on board shareholder feedback about the structure of Board committees and the remuneration of the executive team. We have made changes on both these fronts and details of the changes are set out in our Annual Report in accordance with the ASX Corporate Governance Principles and the Australian Council of Superannuation Investors Governance Guidelines (ACSI Governance Guidelines).

Following shareholder feedback at last year's AGM, the Board conducted a comprehensive review of Board and executive remuneration. External remuneration consultants were engaged to report on Director and executive remuneration. The remuneration consultants' work included advising on the Company's remuneration practices and benchmarking individual Board and executive remuneration against 15 comparator companies. The Board consulted with the Company's lawyers regarding compliance of the Company's remuneration practices with the Corporations Act and the ASX Corporate Governance Principles. The Board also reviewed the Company's remuneration practices against the ACSI Governance Guidelines, at the request of other shareholders. Key shareholders were also consulted as part of this process.

As part of the review of executive remuneration, your Managing Director Con Liosatos, and CFO Peter Crafter, have taken pay-cuts in the 2014, 2015 and 2016 financial years and waived bonuses in respect of the 2014 and 2015 financial years. They have also accepted a wage freeze for the 2016 financial year. These reductions are detailed in the Remuneration Report.

The Board rejects outright the criticism that Warneet has made on remuneration, including the suggestion that there should be further reductions in remuneration for all management

positions. If implemented, this would almost certainly lead to a loss of staff who are critical to the ongoing operations of the Company and to an erosion of our relationships with our clients and road authorities. Clearly this would impact negatively on the Company's ability to deliver on existing projects and pursue new opportunities.

Given that short and long term incentive plans were introduced for executives in consultation with remuneration consultants, it is unclear why Warneet has recommended a vote against the remuneration report. In criticising the remuneration structure, Warneet is clearly ignoring the many steps the Company has taken over the past.

Executive remuneration is now closely aligned with the Company's long term performance and improvement to shareholder value, external remuneration consultants have benchmarked the new remuneration structure, short-term incentives (STI) are linked to both executive and Company performance and long-term incentives (LTI) are closely linked to improving shareholder returns over the longer term. These incentives can only be taken if the Company performs well.

**Warneet has criticised the proposed STI and LTI plans and suggested that shareholders vote against the employee share option scheme.**

The KPI selected in the LTI plan was based on external professional advice and was designed to align management performance to shareholder value in line with the ASX Corporate Governance Principles and ACSI Governance Guidelines.

The 2015 Annual Report included an illustrative table of what estimated remuneration would be for 2016. This table did not include estimates of STI's or LTI's for 2016 because clearly these cannot be measured until the 2016 results are known.

Warneet has criticised the fact that total Board and executive remuneration increased in 2015. The increase is due to the appointment of Ken Daley to the Board in November 2014. Total remuneration for the other Board members and executives actually fell in 2015. This is clearly detailed in the Remuneration Report.

**It is contradictory that Warneet are now advocating reducing the size of the Board to 3 members.**

Last year Warneet spent 6 months in campaigning for one of their nominees to be appointed to the Board which would have increased the size and cost of the Board.

### **3. Delays in Execution of the Strategic Plan**

Warneet's comments about execution of the strategic plan demonstrate a complete lack of understanding of the Company's business. The Company's business model is dependent to a significant extent on government approvals in each State and timing of transport projects.

The Company does not present segment information because it only has one segment, Traffic Products. This has been clearly explained in successive annual reports and is signed off by the auditors at each reporting date. The list of items included in Warneet's letter is in fact a list of products offered by the Company. Warneet appear to be confusing the Company's product catalogue with business segments. It would be detrimental to the Company and of great assistance to its competitors if margin information were to be provided in the Company's financial reports on individual product lines as recommended by Warneet.

### **4. The Board of Directors**

The decision last year by Chairman Alan Brown to stand down as a Board committee chairman was not in response to any unsolicited approach from Warneet.

**It is interesting to note that Warneet now appear to support Ken Daley as a Board member. Last year Warneet recommended a vote against appointing Ken Daley to the Board.** It is unclear why they have changed their mind.

Warneet are also seeking to remove Mr. Liosatos and Mr. Crafter without suggesting who would run the Company if two of our most important executives were to leave.

Mr. Liosatos has very deep knowledge of the Company, vast industry experience and has excellent relationships in the government sector and is clearly the best person to position the Company to win new contracts.

### **Focus Going Forward**

In their letter, Warneet has suggested they would undertake a review of the Company's financial position. They already have access to published financial information and have made no constructive suggestions despite regular contact with Board members and management over the last 18 months regarding how they would improve the Company's financial position.



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During the past 18 months the Company has attempted to engage Warneet on a number of occasions to see if they have any tangible suggestions that might benefit all shareholders.

**However, Warneet has not offered any constructive suggestions. To the contrary, we believe that a number of Warneet's proposals such as the removal of most of the current Board members and senior management will be to the Company's detriment as outlined above.**

Given that Warneet's shareholding is only 4.54%, their tactics of trying to destabilise the current Board and senior management far exceeds their commitment in shares in the Company.

I would ask you to take all of these issues into consideration when you vote on 24 November.

Yours sincerely,

Alan Brown  
Chairman