TRAFFIC TECHNOLOGIES LTD
ABN 21 080 415 407
AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2013
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 2013	30 June 2012

Results for announcement to the market

Continuing Operations				A$'000
Revenues from ordinary activities *(item 2.1)*	down	15%	to	$45,217
Earnings before interest and tax	up	9%	to	$4,314
Profit from ordinary activities after tax attributable to members *(item 2.2)*	up	81%	to	$3,092
Net profit for the period attributable to members *(item 2.3)*	up	81%	to	$3,092

Dividends (distributions) *(item 2.4)*	Amount per security	Franked amount per security
Interim dividend	0.200¢	0.200¢
Final dividend	0.200¢	0.200¢
Previous corresponding period:		
Interim dividend	Nil¢	Nil¢
Final dividend	Nil¢	Nil¢
Record date for determining entitlements to the dividend	5 September 2013	

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 2013	As at 30 June 2012
Net tangible assets per share	(6.7) cents	(9.0) cents

2. Dividends

A fully franked final dividend of 0.2 cents per share payable on or about 20 September 2013 (2012: nil) was declared on 27 August 2013. Total dividend $364,000 (2012: $nil). No foreign conduit income is attributed to the final dividend.

The Company's dividend reinvestment plan (DRP) is currently in operation. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. In accordance with the DRP rules, shares will be allocated at a 5% discount to the market price, being the arithmetic average of the daily volume weighted average market price of all of the Company's shares sold through a normal trade on the ASX trading system over the five business days commencing on the second trading day after the record date. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Election notices for participation in the DRP in relation to the final dividend to be paid on or about 20 September 2013 must be received by the registry by 5:00 pm on the record date (5 September 2013) to be effective for that dividend.

The Company has entered into a Shortfall Placement Agreement, under which Halcyon Corporate Pty Ltd, as lead manager, has agreed to subscribe, or procure subscriptions, for shares in the Company to fund the portion of the final dividend not taken up under the DRP, subject to standard termination events.

A fully franked interim dividend of 0.2 cents per share was declared on 25 February 2013 and was subject to the DRP and a Shortfall Placement Agreement on similar terms. Total dividend $352,000 (2012: $nil). No foreign conduit income was attributed to the interim dividend.

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

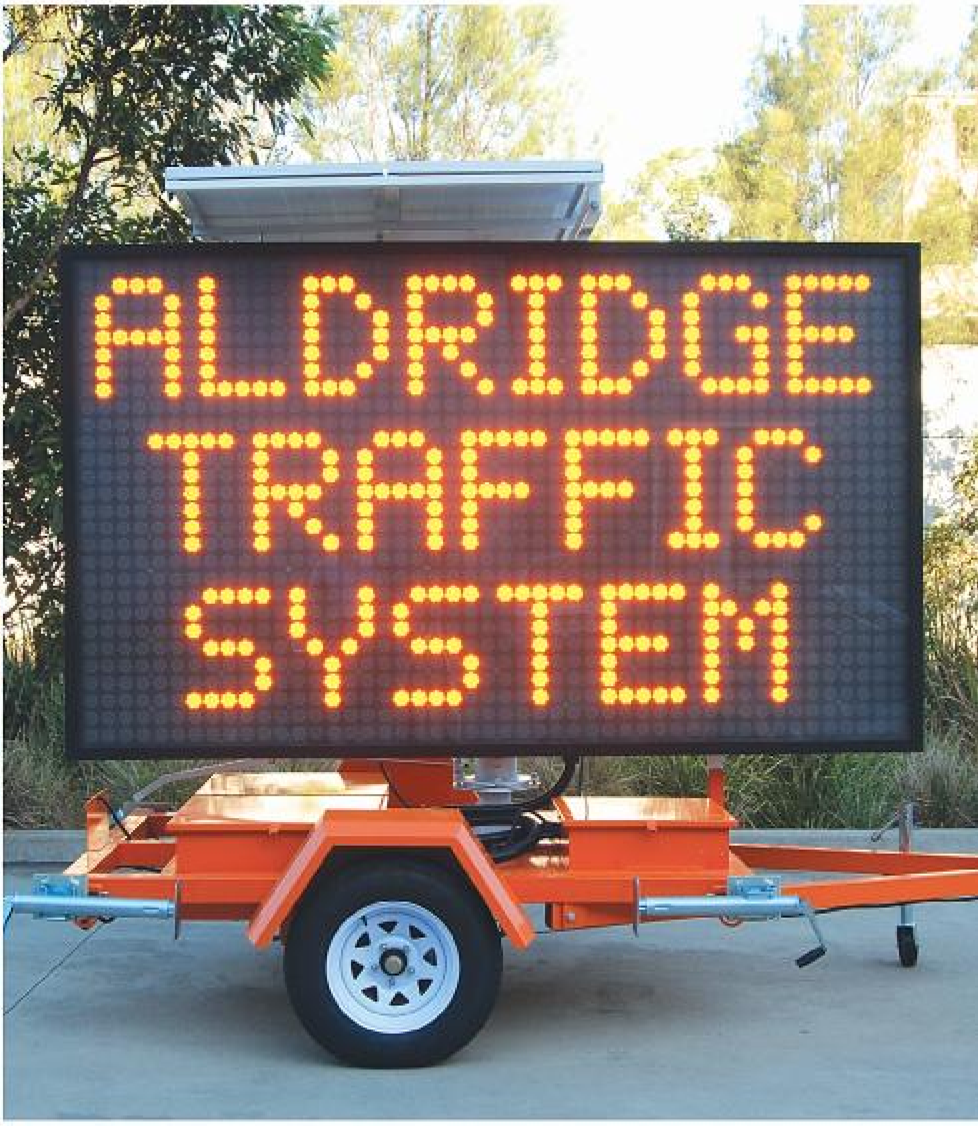
Lawyers
K&L Gates
Level 25
525 Collins Street
Melbourne VIC 3000

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 2013

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 2013

ABN 21 080 415 407
Traffic Technologies Ltd.
address. 31 Brisbane Street, Eltham Victoria 3095 Australia
PO Box 828, Eltham Victoria 3095 Australia
phone. + 61 3 9430 0222 **facsimile.** + 61 3 9430 0244
web. www.trafficltd.com.au

Traffic Technologies Ltd and Controlled Entities
Chairman's Letter

Dear Shareholder,

I have pleasure in enclosing the Annual Report for Traffic Technologies Ltd for the year ended 30 June 2013.

I am pleased to report that earnings continued to grow in the financial year where the Group achieved a Net Profit after Tax (NPAT) of $3.1m, compared to $1.7m in the previous financial year and a further improvement in its operating results with Earnings before Interest and Tax (EBIT) of $4.3m compared to $4.0m in the previous financial year. During the year the Company also declared its maiden dividend in February 2013 and has followed this up by declaring a final dividend of 0.2 cents per share with the release of its results for the financial year ended 30 June 2013.

The Group is extremely pleased with the result for the 2013 financial year, especially with the improvement in profitability, through the continued focus on operating efficiencies and cost control despite the lower revenue.

The Company has experienced a soft start to the 2014 financial year exacerbated by the timing of the Federal Election. However the Company is well positioned with the recent appointment to the NSW RMS panel, which is expected to substantially underwrite revenue from major intersection upgrades over 30 months, with up to 1,800 intersections to be upgraded at a cost of up to $25m. We also continue to develop the road lighting business and its product range in the Intelligent Transport Systems (ITS) sector which represent significant opportunities for future revenue growth.

Revenue and profit for the 2014 financial year may be affected by a change in Government, Government expenditure programs and economic uncertainty. Accordingly, the Group remains cautious about the economic outlook and is not yet in a position to give earnings guidance for the financial year ending 30 June 2014.

In the coming financial year the Board and management will continue to pursue strategies to enhance shareholder value and reduce debt.

Along with my fellow Directors, I thank you for your continued support. We look forward to further increasing shareholder value in the year ahead.

Alan Brown
Chairman

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Traffic Technologies Ltd and Controlled Entities
Managing Directors' Report

Dear Shareholder,

I am pleased to report a solid result for the Group for the 2013 financial year. Despite increasing uncertainty in the economic environment, profits have again risen for the year. This is an extremely healthy result which has been driven by our ongoing commitment to reducing costs and expenditure. During the past year we have aggressively pursued new markets and developed new products. 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 consolidated its position as the leading supplier of traffic signals to the Australasian market and is developing its road lighting and export businesses as well as new products in the Intelligent Transport Systems (ITS) sector.

Revenue was $45.2m compared to $53.1m in the previous financial year. The fall in revenue was primarily due to the absence of any substantial major intersection upgrade projects with the completion of the VicRoads traffic signals upgrade early in the financial year. However the Group was appointed in May 2013 to the panel for a major upgrade of traffic signals in New South Wales which is expected to underpin revenue in the years ahead.

EBIT for the Group increased by 9% to $4.3m, whilst NPAT increased by 81% to $3.1m year on year despite the lower revenue in FY13. The improved profitability reflects our rigorous focus on driving operating efficiencies, rationalising production, cost control and supply chain management.

Net Profit after Tax (NPAT) has continued to improve significantly. This reflects improvements in operating profits, reduced finance costs and the benefit of the Group's tax losses.

REVIEW OF OPERATIONS

The Group remains the dominant supplier and manufacturer of LED traffic signals throughout Australia and New Zealand. During the financial year the Group completed a major upgrade of traffic signals for VicRoads and in May 2013 was appointed to the panel contract of Roads and Maritime Services (RMS) to supply and deliver LED traffic signals and ancillary equipment as part of an upgrade by the New South Wales Government of up to 1,800 signalled intersections. The Group is confident of winning a significant share of the overall LED traffic signals upgrade which is estimated to be worth up to $25m over 30 months.

In November 2012 the Group acquired the traffic signals business of Saferoads Holdings Ltd. This business is now traded as Bob Panich Traffic and reinforces the Group's competitive position in the traffic signals market.

We continue 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 and electronic road signs which have already been supplied to the South Australian and Queensland markets. The Group also plans to expand its traffic controller business which control the sequencing of traffic signals at intersections and complements the Group's traffic signals business.

Through our supply agreement with Rexel Group Australia (Rexel), the Group supplies a range of road lighting products for distribution and sale through Rexel's branch network across Australia. We have developed an LED road light which is significantly more energy efficient than conventional road lights and represents an attractive opportunity for local councils and other customers to make significant savings on their power bills in a time of rising electricity prices and the carbon tax. LED road lighting trials have commenced in Victoria, South Australia and New South Wales.

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 Rail Authorities.

Through a continued focus by management and staff on cost control, factory efficiency and core principles, the Signage business has blossomed into a solid business contributing profits in the 2013 financial year through quality, service and reliability which has become the benchmark in a highly competitive market.

OUTLOOK

With much of the restructuring now complete we are looking forward to growing the business through existing and new products and geographically.

The recent appointment to the New South Wales RMS panel is expected to substantially underwrite revenue from major intersection upgrades. The Group is well positioned to secure a large share of the 1,800 intersection upgrade which is estimated to be worth up to $25 million over 30 months. In addition to being well positioned for other major State government upgrades over time the Group expects to achieve additional growth from the supply of associated products such as pedestrian countdown timers and variable message signs.

The Group is expecting to achieve growth from the traditional road lighting market through its agreement with Rexel and one of the Group's most exciting developments over the medium term is the trial of its new LED road light for the Category V market (main roads) in a number of States across the country. This new technology will substantially decrease government electricity costs, greenhouse gas emissions and ongoing maintenance requirements similar to the LED traffic light. The Group expects to report on the progress of these trials in the first half of the 2014 financial year. This is a market 2-3 times the size of the traditional intersection market and the Group is a key provider currently trialling this technology.

The Group has been expanding its export markets focusing on countries that operate under the same SCATS system as Australia which in total is 26 countries globally. Exports, particularly to countries such as the UK, where our products are now approved and on relevant government panels, provide additional opportunities to further grow the business over time.

The Group has a highly motivated and experienced management team intent on further cost reductions and ongoing efficiency improvements. Whilst economic forecasts are uncertain we are pleased to have your ongoing support and look forward to continued profitability and solid earnings 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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Melbourne VIC 3000

Bankers
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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 2013
Contents

Your Directors submit their report for the year ended 30 June 2013.

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 67) 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 Apprenticeships Plus. 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 2013.
Mr. Constantinos L Liosatos MAICD	(Age 51) 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 2013.
Mr. Mark W Hardgrave B Com ACA MAICD	(Age 55) 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 2013.

Name	Qualifications, Experience and Special Responsibilities
Company Secretary	
Mr. Peter K Crafter LL.B (Hons), MBA, FCA, CA, MCT, FAICD, FCSA	(Age 56) 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.

The following Director also served on the Company's Board during the year and retired on 25 February 2013:

- Mr. Ray Horsburgh

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	3,294,932
Mr. Con Liosatos	15,063,919
Mr. Mark Hardgrave	1,548,388

DIVIDENDS

An interim ordinary dividend of 0.2 cents (2012: nil) per share was paid on 20 March 2013. In addition, since the end of the financial year the Directors have recommended the payment of a final dividend of 0.2 cents (2012: nil) per share payable on or about 20 September 2013. Both the interim and final dividends are subject to the Company's Dividend Reinvestment Plan and Shortfall Placement Agreements entered into with Halcyon Corporate Pty Ltd. For further details, see note 7.

OPERATING AND FINANCIAL REVIEW

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, 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 ITS equipment is based in Rhodes, New South Wales.

In November 2012 the Group completed the acquisition of the traffic signals business of Saferoads Holdings Ltd. The acquisition of this business, which is now traded as Bob Panich Traffic, reinforces the Group's position as the leading supplier of traffic signals and hardware in Australasia.

The Group exports its traffic signals and associated products such as pedestrian countdown timers, as well as emergency telephones to over 20 international customers.

The Group is a key supplier 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.

Revenue was $45.2m (2012: $53.1m), 15% lower compared to the previous year. The decrease in revenue was primarily due to the lack of government funding of traffic signal upgrades in the financial year but in May 2013 the Company announced that it had been appointed to the panel contract of Roads and Maritime Services (RMS) to supply and deliver LED traffic signals and ancillary equipment as part of an upgrade by the New South Wales Government of up to 1,800 signalled intersections. The Company is confident of winning a significant share of the overall LED traffic signals upgrade which is estimated to be worth up to $25m over 30 months.

Profit

The Company declared a fully franked interim dividend of 0.2 cents per share in February 2013 and a final dividend of 0.2 cents per share in respect of the financial year ended 30 June 2013, a total of 0.4 cents fully franked for the 2013 financial year.

Earnings per share (EPS) showed a strong improvement by 79% to 1.74 cents, compared to 0.97 cents in the previous financial year, reflecting the improvement in NPAT.

Net Profit after Tax (NPAT) improved by 81% compared to the previous year, to $3.1m, compared to $1.7m in the previous financial year. Earnings before Interest and Tax (EBIT) from continuing operations improved to $4.3m, an increase of 9% compared to $4.0m in the previous financial year, despite the lower revenue. The improvement in the Group's EBIT margin by 26.7% in the financial year ended 30 June 2013 compared to the previous financial year reflects management's continued focus on cost control and operating efficiencies and the integration of its manufacturing operations.

Corporate costs included $0.5m incurred in dealing with a number of legacy issues, including the cost of defending the De Neefe case which has since been resolved, redundancy costs and costs associated with exiting a legacy property lease in New South Wales.

Finance costs also reduced, benefitting from a fall in market interest rates.

The Group's income tax benefit was $0.6m compared to $0.4m in the previous financial year. Further tax losses of $0.8m were recognised as a deferred tax asset following a review of the Group's tax balances. The Group remains cautious about the economic outlook and has not recorded all its tax losses as a deferred tax asset.

Financial Position

Net assets were $23.4m as at 30 June 2013 (2012: $20.3m). The increase in the Group's net assets of 15% compared with the previous year reflect NPAT for the year.

Receivables reduced to $8.6m compared to $14.3m in the previous financial year whilst payables reduced to $5.9m from $14.8m. Both receivables and payables in the previous financial year included $5.4m of deferred income at the previous balance date which had been invoiced but not yet delivered at financial year end.

Inventory increased by $2.8m due to the long lead times associated with sourcing electronic components from offshore and in preparation for the traffic signals upgrade in New South Wales announced in May 2013.

Property, plant and equipment was unchanged at $2.5m (2012: $2.5m).

The Group has $30.5m (2012: $30.5m) of goodwill associated with the Technical Products business and $3.7m (2012: $3.5m) of intangible assets which mainly comprise development costs and type approval certification associated with the Technical Products business.

Net debt increased by $3.4m during the financial year, including funding for the acquisition of the traffic signals business of Saferoads Holdings Ltd and the funding of higher inventory levels as outlined above. The Group's term debt facility was $20.7m at 30 June 2013 and the working capital facility was $6.0m at 30 June 2013. The Company's debt facilities have been extended to 1 October 2014.

Net operating cash inflows were $0.5m for the financial year and net operating cash flow was lower due to lower revenue and higher inventory. Net investing cash outflow was $3.4m compared to net operating cash inflow of $1.2m in the previous financial year, which included $2.5m proceeds from the sale of the Traffic Hire business in December 2011. Net financing cash inflow was $2.0m compared to a net financing cash outflow of $8.5m in the previous financial year which included net debt repayment of $8.4m in that year.

Business Strategies and Prospects

The Group is committed to maintaining its predominant position as the leading supplier of Technical Products to the Australasian market and works closely with road traffic authorities ensuring that its products are state-of-the-art and competitive.

In addition to its core business of supplying traffic signals for new intersections and maintenance across Australasia, the Group expects to continue to be involved in supplying traffic signals for upgrade projects in States and Territories where previous generation traffic signals are upgraded by State Road Authorities to the latest technology. The Group is the dominant supplier of traffic signals to the Australia and New Zealand market and continues to develop export markets in Europe and Asia. The acquisition of the traffic signals business of Saferoads Holdings Ltd in November 2012, which is now traded as Bob Panich Traffic, has reinforced the Group's competitive position in the traffic signals market.

The Company has experienced a soft start to the 2014 financial year exacerbated by the timing of the Federal Election. However the Company is well positioned with the recent appointment to the NSW RMS panel, which is expected to substantially underwrite revenue from major intersection upgrades over 30 months, with up to 1,800 intersections to be upgraded at a cost of up to $25m.

The Group is continuing to develop its road lighting business through its supply agreement with Rexel Group Australia (Rexel). The Group supplies a range of road lighting products for distribution and sale through Rexel's branch network across the country and New Zealand. The Group is gaining traction in the road lighting market and is developing a range of LED road lights which are significantly more energy efficient than conventional lights. LED road lighting represents an attractive opportunity for Road Authorities, local councils and other customers to make significant savings on their power bills in a time of rising electricity prices and the carbon tax.

The Group's road lighting business forms part of the Group's strategy of expanding activities into the growing Intelligent Transport Systems (ITS) sector. This involves using information and communication technology to manage traffic flows and the Group is uniquely placed to achieve growth given its expertise in this area.

The Group is expanding its product range and has developed a number of new products in addition to the LED road light, such as pedestrian countdown timers and electronic road signs which have already been supplied to the South Australian and Queensland markets. The Group will continue to develop overseas markets such as New Zealand where it supplies traffic signals and the UK where it has won contracts to supply pedestrian countdown timers, traffic signals and emergency telephones. The Group also plans to expand its traffic controller business. Traffic controllers control the sequencing of traffic signals at intersections and complement the Group's traffic signals business.

One of the priorities for the Group in the year ahead will continue to be to reduce gearing and associated finance costs. With this in mind, the Board and management will continue to investigate ways in which debt can be further reduced. The Group will maintain its focus on cost control and operating efficiencies to maintain margins in a competitive market in a time of economic uncertainty and government expenditure cutbacks.

Potential strategic acquisitions will be investigated, where appropriate, in order to augment and strengthen the Group's portfolio of products and services together with pursuing continual development of the existing businesses to drive organic growth and further efficiency gains.

Revenue and profit for the 2014 financial year may be affected by a change of Government, Government expenditure programs and economic uncertainty. Accordingly, the Group remains cautious about the economic outlook and is not yet in a position to give earnings guidance for the financial year ending 30 June 2014.

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 Company'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 $352,000 as a result of the issue of shares under the Dividend Reinvestment Plan (DRP) and Shortfall Placement Agreement; for further details, refer note 16.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 27 August 2013 the Company declared a fully franked final dividend of $0.002 (0.2 cents) per share. The dividend is payable on or about 20 September 2013 and is covered by the Company's Dividend Reinvestment Plan. The Company will fund any shortfall under the Dividend Reinvestment Plan by issuing shares pursuant to a Shortfall Placement Agreement.

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 2013, the Group paid premiums of $50,513 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 2013 and 30 June 2012 is detailed in Table 1 and Table 2 respectively 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 2013 no options were granted as equity compensation benefits to Key Management Personnel and no options vested during the year (2012: nil). There were no options outstanding as at 30 June 2013 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 Directors or 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 (appointed 30 January 2013)
Mr. Ray Horsburgh	Non-Executive Director (retired 25 February 2013)
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. 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.

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

	2013	**2012**
EBIT from continuing operations ($'000)	$4,314	$3,958
Net profit attributable to equity holders of the parent ($'000)	$3,092	$1,709
Basic earnings per share	1.74 cents	0.97 cents
Share price at balance date	5.6 cents	2.9 cents
Share price growth over year ended 30 June	93%	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 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%**
Year ended 30 June 2012									
Key Management Personnel									
Non-executive Directors									
Mr. Alan Brown	94,500	-	-	8,505	-	-	-	103,005	-
Mr Ray Horsburgh	51,666	-	-	4,650	-	-	-	56,316	-
Sub-total non-executive Directors	**146,166**	**-**	**-**	**13,155**	**-**	**-**	**-**	**159,321**	**-**
Executives									
Mr. Con Liosatos	433,499	76,947	-	39,015	-	16,809	-	566,270	-
Mr. Peter Crafter	228,450	17,681	-	46,721	-	11,904	-	304,756	-
	661,949	**94,628**	**-**	**85,736**	**-**	**28,713**	**-**	**871,026**	**-**
Total	**808,115**	**94,628**	**-**	**98,891**	**-**	**28,713**	**-**	**1,030,347**	**-**

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	12	12	2	2	1	1	1	1
Mr. Con Liosatos	12	12	2	2	1	1	1	1
Mr. Mark Hardgrave	6	6	1	1	-	-	1	1
Mr. Ray Horsburgh	8	7	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 2013
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 2013 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 2013

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 2013. 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 2013 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 2013.

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 Number	Objective %	Actual Number	Actual %
Women on the Board	1	25%	-	-
Women in senior management roles	2	25%	1	11%
Women employees in the Group	38	25%	29	19%

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 and 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 Company'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 2013

	Note	Consolidated	
		2013	2012
		$'000	$'000
Continuing operations			
Revenue	2a	**45,217**	53,065
Other income	2b	**34**	153
Changes in inventories of finished goods and work in progress		**2,878**	(1,225)
Raw materials and consumables used		**(23,972)**	(25,945)
Employee benefits expense	3a	**(13,339)**	(15,230)
Occupancy costs		**(2,317)**	(2,322)
Advertising and marketing expense		**(60)**	(103)
Equipment rental		**(101)**	(19)
Other expenses	3b	**(2,274)**	(2,503)
Depreciation and amortisation expense	3c	**(1,752)**	(1,913)
Earnings before interest and tax (EBIT)		**4,314**	3,958
Finance costs	3d	**(1,791)**	(2,486)
Net profit for the year from continuing operations before income tax		**2,523**	1,472
Income tax benefit	4b	**569**	418
Net profit for the year from continuing operations		**3,092**	1,890
Discontinued operations			
Loss for the year from discontinued operations	6	**-**	(181)
Net profit for the year		**3,092**	1,709
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**3,092**	1,709
Earnings per share		**Cents**	Cents
From continuing operations			
- Basic (cents per share)	5	**1.74**	1.07
- Diluted (cents per share)	5	**1.74**	1.07
From discontinued operations			
- Basic (cents per share)	5	**-**	(0.10)
- Diluted (cents per share)	5	**-**	(0.10)
From continuing and discontinued operations			
- Basic (cents per share)	5	**1.74**	0.97
- Diluted (cents per share)	5	**1.74**	0.97

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 2013

	Note	Consolidated 2013 $'000	2012 $'000
Current Assets			
Cash and cash equivalents	20a	**681**	1,589
Trade and other receivables	8	**8,606**	14,334
Inventories	9	**9,540**	6,662
Total Current Assets		**18,827**	22,585
Non-Current Assets			
Property, plant and equipment	11	**2,477**	2,461
Goodwill	12	**30,535**	30,535
Intangible assets	12	**3,707**	3,549
Other financial assets	10	**1**	1
Deferred tax assets	4c	**1,468**	899
Total Non-Current Assets		**38,188**	37,445
TOTAL ASSETS		**57,015**	60,030
Current Liabilities			
Trade and other payables	13	**5,850**	14,829
Interest bearing loans and borrowings	14	**4,042**	1,650
Provisions	15	**2,351**	2,120
Total Current Liabilities		**12,243**	18,599
Non-Current Liabilities			
Trade and other payables	13	**23**	24
Interest bearing loans and borrowings	14	**21,034**	20,936
Provisions	15	**166**	123
Derivative financial instruments	17	**109**	-
Total Non-Current Liabilities		**21,332**	21,083
TOTAL LIABILITIES		**33,575**	39,682
NET ASSETS		**23,440**	20,348
Equity			
Contributed equity	16	**42,015**	41,663
Accumulated losses		**(19,575)**	(22,315)
Share-based payments reserve		**1,000**	1,000
TOTAL EQUITY		**23,440**	20,348

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 2013

	Note	Ordinary Shares	Share based payments Reserve	Accumulated Losses	Total
		$'000	$'000	$'000	$'000
CONSOLIDATED					
At 1 July 2011		41,663	1,000	(24,024)	18,639
Profit for the year		-	-	1,709	1,709
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	1,709	1,709
Transactions with owners in their capacity as owners:		**-**	**-**	**-**	**-**
		-	**-**	**-**	**-**
At 30 June 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**

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.

Statement of Cash Flows

For the year ended 30 June 2013

	Note	Consolidated	
		2013	2012
		Inflows / (Outflows) $'000	Inflows / (Outflows) $'000
Cash flows from operating activities			
Receipts from customers		**54,378**	58,098
Payments to suppliers and employees		**(52,291)**	(49,923)
Interest received		**12**	44
Interest paid		**(1,641)**	(2,311)
Net cash provided by operating activities	20b	**458**	5,908
Cash flows from investing activities			
Proceeds from disposal of plant and equipment		**15**	-
Proceeds from disposal of business assets		**-**	2,500
Payment of development costs		**(1,039)**	(900)
Purchase of property, plant and equipment		**(167)**	(203)
Purchase of intangible assets		**(182)**	(117)
Transaction costs – sale of business assets		**-**	(99)
Purchase of business assets		**(2,004)**	-
Net cash (used in) / provided by investing activities		**(3,377)**	1,181
Cash flows from financing activities			
Proceeds from borrowings		**4,321**	1,000
Repayment of borrowings		**(2,160)**	(9,355)
Payment for finance facility fees		**(150)**	(150)
Net cash provided by / (used in) financing activities		**2,011**	(8,505)
Net decrease in cash and cash equivalents		**(908)**	(1,416)
Cash and cash equivalents at beginning of the financial year		**1,589**	3,005
Cash and cash equivalents at end of the financial year	20a	**681**	1,589

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 2013 was authorised for issue in accordance with a resolution of the Directors on 27 August 2013. 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

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of these new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below.

AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

These standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012-6: Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (issued in September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015.

In light of this change to the mandatory effective date, the Group is expected to adopt AASB 9 and AASB 2010-7 for the annual reporting period ending after 31 December 2015. Although, the directors anticipate that the adoption of AASB 9 and AASB 2010-7 may have a significant impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements [August 2011], AASB 128: Investments in Associates and Joint Ventures [August 2011] (as amended by AASB 2012-10: Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127 [March 2008, as amended] and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either ‘joint operations’ (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or ‘joint ventures’ (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a ‘structured entity’, replacing the ‘special purpose entity’ concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued.

These Standards are not expected to significantly impact the Group’s financial statements.

AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and

- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

These Standards are expected to result in more detailed fair value disclosures, but are not expected to significantly impact the amounts recognised in the Group’s financial statements.

AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (applicable for annual reporting periods beginning on or after 1 July 2013).

This Standard makes amendments to AASB 124: Related Party Disclosures to remove the individual key management personnel disclosure requirements (including paragraphs Aus29.1 to Aus29.9.3). These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent *Corporations Act 2001* disclosure requirements.

This Standard is not expected to significantly impact the Group's financial report because the *Corporations Legislation Amendment Regulation 2013 (No. A)* proposes to include the requirements in AASB 124 that will be deleted by AASB 2011-4 in the *Corporations Regulations*.

AASB 119: Employee Benefits [September 2011] and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 [September 2011] also includes changes to:

(a) require only those benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service to be classified as short-term employee benefits. All other employee benefits are to be classified as either other long-term employee benefits, post-employment benefits or termination benefits , as appropriate; and
(b) the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:
(i) for an offer that may be withdrawn – when the employee accepts;
(ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
(iii) where the termination is associated with a restructuring of activities under AASB 137 and if earlier than the first two conditions – when the related restructuring costs are recognised.

These Standards are not expected to significantly impact the Group's financial statements.

AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132] (applicable for annual reporting periods commencing on or after 1 January 2014).

This Amending Standard adds application guidance to AASB 132: *Financial Instruments: Presentation* to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

This Standard is not expected to significantly impact the Group's financial statements.

AASB 2012-2: Amendments to Australian Accounting Standards – Disclosures – Offsetting

Financial Assets and Financial Liabilities [AASB 7 & AASB 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 2012-2 principally amends AASB 7: *Financial Instruments: Disclosures* to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This Standard is not expected to significantly impact the Group's financial statements.

AASB 2012-5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle [AASBs 1, 101, 116, 132 & 134 and Interpretation 2] (applicable for annual reporting periods commencing on or after 1 January 2013).

This Amending Standard amends a number of Australian Accounting Standards as a consequence of the issuance of Annual Improvements to IFRSs 2009-2011 Cycle by the International Accounting Standards Board, including:

- AASB 1: First-time Adoption of Australian Accounting Standards to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;
- AASB 101: Presentation of Financial Statements and AASB 134: Interim Financial Reporting to clarify the requirements for presenting comparative information;
- AASB 116: Property, Plant and Equipment to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;
- AASB 132 and Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
- AASB 134 to facilitate consistency between the measures of total assets and liabilities an entity reports for its segments in its interim and annual financial statements.

This Standard is not expected to significantly impact the Group's financial statements.

AASB 2012-9: Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039 (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 2012-9 gives effect to the AASB's decision to withdraw Australian Interpretation AASB 1039: Substantive Enactment of Major Tax Bills in Australia by deleting the reference to the Interpretation from AASB 1048: Interpretation of Standards.

This Standard is not expected to significantly impact the Group's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Traffic Technologies Ltd and its subsidiaries as at 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Group controls another entity. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of 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(s), 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:

	2013	2012
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) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of comprehensive income and the assets and liabilities are presented separately in the statement of financial position.

m) Goodwill

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The Group performs 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.

n) 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(o) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Development costs

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

Any expenditure so capitalised is amortised over the period of expected benefit from the related project which is generally 5 years (2012: 5 years). The amortisation is recognised in the statement of comprehensive income in the line item 'depreciation, amortisation and impairment expense'.

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 (2012: 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 (2012: 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 (2012: 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 (2012: 10 years).

o) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

p) 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.

q) 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.

r) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) 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.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in current payroll liabilities (see note 13) and current provisions (see note 15) in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

t) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

u) 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.

v) 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.

w) 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)

x) 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 2013 $'000	Consolidated 2012 $'000
(a) Revenue		
Continuing operations		
Sale of goods	**45,205**	53,021
Bank interest receivable	**12**	44
	45,217	53,065
Discontinued operations		
Rendering of services	**-**	972
Total revenue	**45,217**	54,037

(b) Other income		
Fair value of interest rate contracts	**-**	151
Net gain on disposal of fixed assets	**6**	-
Other income	**28**	2
Other income	**34**	153
Discontinued operations	**-**	-
Total other income	**34**	153

3. EXPENSES

	Consolidated 2013 $'000	Consolidated 2012 $'000
(a) Employee related expenses		
Wages and salaries	**8,484**	8,838
Superannuation (defined contribution)	**906**	955
Other employee benefits expense	**3,949**	5,437
	13,339	15,230
(b) Other expenses		
Administrative costs	**1,928**	2,104
Public company costs	**346**	399
	2,274	2,503
(c) Depreciation, amortisation and impairment expense		
Depreciation of non-current assets:		
Plant and equipment	**326**	323
Office furniture and fittings	**83**	80
Motor vehicles	**122**	98
Land and buildings	**9**	9
Leasehold improvements	**24**	19
	564	529
Amortisation of non-current assets:		
Development costs	**356**	321
Type approvals	**496**	741
Software costs	**228**	219
Patents and trademarks	**60**	55
Brand names	**48**	48
	1,188	1,384
Total depreciation and amortisation expense	**1,752**	1,913
(d) Finance costs		
Amortisation of capitalised transaction costs	**150**	177
Bank loans and overdrafts	**1,452**	2,254
Lease interest	**63**	38
Fair value of interest rate contracts	**109**	-
Other	**17**	17
Total finance costs	**1,791**	2,486
(e) Research and development costs		
Research and development costs charged directly to cost of sales in profit or loss	**26**	23

4. INCOME TAX

	Consolidated 2013 $'000	Consolidated 2012 $'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 / (benefit)	**-**	-
Adjustment recognised in the current year in relation to the current tax of prior years	**-**	-
Deferred income tax		
Relating to origination and reversal of temporary differences	**(569)**	(418)
Income tax expense/(benefit) reported in the statement of comprehensive income	**(569)**	(418)
(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 before income tax from continuing operations	**2,523**	1,472
Accounting loss before income tax from discontinued operations	**-**	(174)
	2,523	1,298
Prima facie income tax expense at the Group's statutory income tax rate of 30% (2012: 30%)	**757**	389
Incidental on sale of assets	**-**	10
Capitalised intangibles	**(783)**	285
Recognition of losses not previously recognised	**(465)**	(625)
Recoupment of losses not previously recognised	**(182)**	(716)
Not deductible in determining taxable profit	**104**	246
Aggregate income tax expense / (benefit)	**(569)**	(411)
Aggregate income tax expense / (benefit) is attributable to:		
Continuing operations	**(569)**	(418)
Discontinued operations	**-**	7
Income tax expense / (benefit)	**(569)**	(411)

4. INCOME TAX (continued)

(c) Deferred tax balances

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

30 June 2013	**Consolidated**				
	Opening balance $'000	Charged/ (credited) to income $'000	Charged to equity $'000	Disposals $'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**

30 June 2012	**Consolidated**				
	Opening balance $'000	Charged/ Credited) to income $'000	Charged to equity $'000	Disposals $'000	Closing balance $'000
Temporary differences					
Intangible assets	(1,070)	5	-	1	(1,064)
Property, plant and equipment	167	(68)	-	-	99
Employee provisions	585	112	-	(2)	695
Warranty provisions	30	9	-	-	39
Inventory provisions	98	(98)	-	-	-
Doubtful debts	2	(2)	-	-	-
Credit notes	22	(2)	-	(6)	14
Unclaimed share issue costs	13	(4)	-	-	9
Accruals	455	(97)	-	-	358
Capital expenditure	186	(62)	-	-	124
	488	(207)	-	(7)	274
Unused tax losses	-	625	-	-	625
	488	418	-	(7)	899

4. INCOME TAX (continued)

	Consolidated 2013 $'000	Consolidated 2012 $'000
The following tax losses have not been recognised as a deferred tax asset:		
Tax losses – revenue	**803**	3,555
Tax losses – capital	**100**	100
Carried forward tax offsets	**300**	-
Total deferred tax assets	**1,203**	3,655

"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 2013 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 (2012: $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 2013 $'000**	Consolidated 2012 $'000
For basic and diluted earnings per share:		
Net profit from continuing operations attributable to ordinary equity holders of the parent	**3,092**	1,890
Loss attributable to discontinued operations	**-**	(181)
Net profit attributable to ordinary equity holders of the parent	**3,092**	1,709

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

	Consolidated 2013 Thousands	Consolidated 2012 Thousands
Weighted average number of ordinary shares used in calculating basic earnings per share	**177,710**	176,122
Weighted average number of ordinary shares adjusted for the effect of dilution	**177,710**	176,122

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 2013 (2012: 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. DISCONTINUED OPERATIONS

(a) Details of operations disposed

In December 2011 the Group completed the sale of its Traffic Hire business and assets ("Traffic Hire"), a business which provided equipment hire services to road traffic authorities and construction companies.

(b) Financial performance of operations disposed

	2012 $'000
Revenue	972
Expenses	(579)
Depreciation and amortisation expenses	(163)
Earnings before income tax from discontinued operations	230
Finance costs	(3)
Profit before tax from discontinued operations	227
Income tax expense	(7)
Profit after tax from discontinued operations	220
Loss on sale before income tax	(401)
Income tax expense	-
Loss on sale after income tax	(401)
Loss from discontinued operations	(181)

(c) Assets and liabilities and cash flow information of discontinued operations

The major classes of assets and liabilities disposed of were:

Assets	
Property, plant and equipment	2,802
Net assets attributable to discontinued operations	2,802

The net cash flows of discontinued operations are as follows:

Operating activities	469
Investing activities	2,500
Financing activities	(2,992)
Net cash outflow	(23)

Consideration received:	
Net cash consideration	2,500
Less transaction costs	(99)
Less net assets disposed	(2,802)
Loss on disposal before income tax expense	(401)
Income tax expense	-
Loss/ gain on disposal after income tax expense	(401)

Net cash flow on disposal	
Cash and cash equivalents consideration	2,500
Reflected in the statement of cash flows	2,500

7. DIVIDENDS

	2013 $'000	2012 $'000
(a) Ordinary shares		
Interim dividend for the year ended 30 June 2013 of 0.2 cents paid subject to the Company's DRP and a Shortfall Placement Agreement (see below)	**352**	**-**
(b) Dividends not recognised at the end of the reporting period		
In addition to the above dividend, since year end the Directors have recommended the payment of a final dividend of 0.2 cents per fully paid ordinary share, fully franked based on tax paid of 30%. The aggregate amount of the proposed dividend expected to be paid on or about 20 September 2013 out of retained earnings at 30 June 2013, but not recognised as a liability at year end, is	**364**	**-**
(c) Franked dividends		
The franked portions of the final dividends recommended after 30 June 2013 will be franked out of existing franking credits.		
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2012: 30%)	**3,711**	**3,862**

During the year 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 Australian 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.

The DRP is currently in operation and applies to the interim and final dividends. In accordance with the DRP rules, the Company's Directors have determined that in respect of both the interim and final dividend, shares will be allocated at a 5% discount to the market price, being the arithmetic average of the daily volume weighted average market price of all of the Company's shares sold through a normal trade on the ASX trading system over the five business days commencing on the second trading day after the record date. Election notices for participation in the DRP in relation to the final dividend to be paid on or about 20 September 2013 must be received by the registry by 5:00 pm on the record date (5 September 2013) to be effective for that dividend. The Company has entered into a Shortfall Placement Agreement, under which Halcyon Corporate Pty Ltd, as lead manager, has agreed to subscribe, or procure subscriptions, for shares in the Company to fund the portion of the final dividend not taken up under the DRP, subject to standard termination events. The Company entered into a similar Shortfall Placement Agreement with Halcyon Corporate Pty Ltd in respect of the interim dividend.

8. TRADE AND OTHER RECEIVABLES (Current)

	Consolidated 2013 $'000	Consolidated 2012 $'000
Trade receivables	**7,974**	12,729
Allowance for impairment loss (a)	**(1)**	(1)
	7,973	12,728
Prepayments	**473**	1,546
Other receivables	**160**	60
	8,606	14,334

(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 receipt of $2,000 against a previously written off amount (2012: loss $93,000) 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 2013 $'000	Consolidated 2012 $'000
Balance at the beginning of the year	**1**	8
Charge for the year	**(2)**	93
Amounts written off as uncollectible	**-**	(91)
Amounts recovered during the year	**2**	(2)
Allowance no longer required	**-**	(7)
Balance at the end of the year	**1**	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**
2013	**Group**	**7,974**	**3,916**	**2,690**	**-**	**1,127**	**-**	**240**	**1**
2012	Group	12,729	9,737	2,421	-	489	-	81	1

**** - Table Legend***

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

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

Receivables past due but not considered impaired are: Group $4,057,000 (2012: $2,991,000). 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 2013 $'000	Consolidated 2012 $'000
Raw materials	**4,910**	3,360
Work in progress	**223**	197
Finished goods	**4,407**	3,105
	9,540	6,662

Inventory write-downs recognised as an expense totalled $Nil (2012: $12,000) for the Group. During the year, inventory write-downs of $17,000 were reversed following the disposal of associated aged/impaired inventory (2012: $40,000). This expense/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 2013 $'000	Consolidated 2012 $'000
Listed investments, at market value	**1**	1
	1	1

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2013 $'000	Consolidated 2012 $'000
a) Carrying values		
Plant and equipment:		
At cost	**4,649**	4,448
Accumulated depreciation*	**(3,254)**	(3,027)
Total plant and equipment	**1,395**	1,421
Plant and equipment under lease:		
At cost	**239**	170
Accumulated depreciation*	**(76)**	(36)
Total plant and equipment	**163**	134
Office furniture and fittings		
At cost	**1,203**	1,137
Accumulated depreciation*	**(1,074)**	(1,012)
Total office furniture and fittings	**129**	125
Office furniture and fittings under lease		
At cost	**82**	82
Accumulated depreciation*	**(33)**	(12)
Total office furniture and fittings	**49**	70
Motor vehicles		
At cost	**478**	472
Accumulated depreciation*	**(389)**	(330)
Total motor vehicles	**89**	142
Motor vehicles under lease		
At cost	**546**	436
Accumulated depreciation*	**(186)**	(144)
Total motor vehicles under lease	**360**	292
Buildings		
At cost	**208**	208
Accumulated depreciation	**(64)**	(55)
Total land and buildings	**144**	153
Leasehold improvements		
At cost	**772**	724
Accumulated depreciation*	**(624)**	(600)
Total leasehold improvements	**148**	124
Total property, plant and equipment		
At cost	**8,177**	7,677
Accumulated depreciation*	**(5,700)**	(5,216)
Total net book value	**2,477**	2,461

** - 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 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**
Year ended 30 June 2012									
Balance at the beginning of the year, net of accumulated depreciation	4,576	165	145	-	179	160	154	110	5,489
Additions	102	-	48	82	13	180	8	33	466
Disposals	-	-	-	-	-	-	-	-	-
Depreciation expense as part of continuing operations	(292)	(31)	(68)	(12)	(50)	(48)	(9)	(19)	(529)
Depreciation expense as part of discontinued operations	(163)	-	-	-	-	-	-	-	(163)
Assets transferred to discontinued operations	(2,802)	-	-	-	-	-	-	-	(2,802)
Balance at the end of the year, net of accumulated depreciation	1,421	134	125	70	142	292	153	124	2,461

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 2013 $'000	Consolidated 2012 $'000
Development costs		
At cost	**3,037**	2,883
Accumulated amortisation	**(1,399)**	(1,043)
Accumulated impairment	**(400)**	(400)
	1,238	1,440
Type approval certification		
At cost	**4,824**	3,939
Accumulated amortisation	**(2,877)**	(2,381)
	1,947	1,558
Software costs		
At cost	**1,283**	1,011
Accumulated amortisation	**(1,045)**	(817)
	238	194
Patents and trademarks		
At cost	**326**	291
Accumulated amortisation	**(224)**	(164)
	102	127
Brand names		
At cost	**477**	477
Accumulated amortisation	**(295)**	(247)
	182	230
Goodwill		
At cost	**33,023**	33,023
Accumulated impairment	**(2,488)**	(2,488)
	30,535	30,535
Total intangibles		
At cost	**42,970**	41,624
Accumulated amortisation*	**(8,728)**	(7,540)
Total net book value	**34,242**	34,084

* - *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 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**
At 1 July 2011 net book value	1,533	1,627	303	130	278	30,535	34,406
Additions	228	672	110	52	-	-	1,062
Amortisation	(321)	(741)	(219)	(55)	(48)	-	(1,384)
At 30 June 2012 net book value	1,440	1,558	194	127	230	30,535	34,084

**- Internally generated intangible asset*

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 cash-generating unit for impairment testing.

The recoverable amount of the Signals cash-generating unit has 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 5.7% (2012: 5.6%), which is the Group's WACC. The growth rate used to extrapolate the cash flows for periods beyond the five year period is 3% (2012: 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 2013 $'000	Consolidated 2012 $'000
Signals	**30,535**	30,535

(iii*) Key assumptions used in value in use calculations for the cash-generating unit at 30 June 2013 and 30 June 2012*

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 cash-generating unit (2012: 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 cash generating unit.

The key assumptions used in the value in use calculations represent management's best estimates at 30 June 2013. 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 2013 $'000	Consolidated 2012 $'000
Current		
Trade creditors *(i)*	**4,071**	5,850
Sundry creditors and accruals *(ii)*	**1,452**	2,391
Deferred income	**327**	5,388
Provision for legal case	**-**	1,200
Current trade and other payables	**5,850**	14,829
Non-current		
Sundry creditors and accruals *(ii)*	**23**	24
Non-current trade and other payables	**23**	24

(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 2013 $'000**	Consolidated 2012 $'000
Current borrowings				
Working capital facility (secured) *(iii)*	BBR + 2.0%	2014	**3,800**	1,500
Lease liabilities *(iv)*	4.1% - 11.0%	2013-2014	**242**	150
			4,042	1,650
Non-current borrowings				
Term bank facility (secured) – *(i) (ii)*	BBR + 3.0%	2014	**20,571**	20,570
Lease liabilities *(iv)*	4.1% - 11.0%	2014-2017	**463**	366
			21,034	20,936

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 2013 $'000**	Consolidated 2012 $'000
Term bank facility balance comprises:		
Term bank facility – principal loan amounts payable	**20,700**	20,700
Less: capitalised transaction costs	**(129)**	(130)
	20,571	20,570
Non-current borrowings	**20,571**	20,570

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

Terms and conditions relating to the above financial instruments:

(i) *Term Facility*

The term facility has been extended for repayment on 1 October 2014 (previously 1 October 2013) 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 2014 (previously 1 October 2013) 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 2013 $'000	Consolidated 2012 $'000
Current		
Annual leave	**1,008**	1,033
Long service leave	**993**	957
Maintenance warranties	**100**	130
Property cost provisions	**250**	-
	2,351	2,120
Non-current		
Long service leave	**166**	123
	166	123
Total provisions	**2,517**	2,243

(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:

	Maintenance Warranties $'000
CONSOLIDATED	
At 1 July 2012	**130**
Arising during the year	**-**
Unused amounts reversed	**(30)**
At 30 June 2013	**100**
Current 2013	**100**
Current 2012	130

(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 2013 $'000	Consolidated 2012 $'000
Ordinary shares	**42,015**	41,663
	42,015	41,663

	No. Of Shares '000	**$'000**
a) Ordinary shares		
At 1 July 2011	176,122	41,663
At 30 June 2012	**176,122**	**41,663**
At 1 July 2012	176,122	41,663
Shares issued under Dividend Reinvestment Plan – 20 March 2013 (see note 7)	1,546	96
Shares issued under Shortfall Placement Agreement – 20 March 2013(see note 7)	4,136	256
At 30 June 2013	**181,804**	**42,015**

Terms and conditions of contributed equity

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

b) Capital risk management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The Group's overall strategy remains unchanged from 2012. 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 retained earnings 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.

16. CONTRIBUTED EQUITY (continued)

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 2013 and 2012 were as follows:

	Consolidated 2013 $'000	Consolidated 2012 $'000
Total borrowings (i)	**25,076**	22,586
Cash and cash equivalents	**(681)**	(1,589)
Net debt	**24,395**	20,997
Equity (ii)	**23,440**	20,348
Total capital	**47,835**	41,345
Gearing ratio	**51%**	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 2013 $'000	Consolidated 2012 $'000
Non-current liabilities		
Interest rate swap contract	**109**	-

Interest rate swap

Interest bearing loans of the Group currently bear an average floating interest rate of 3.3% (2012: 4.5%). 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 50% 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 2013 $'000	Consolidated 2012 $'000
1– 2 years	**10,350**	-
Total	**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.

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 (2012: 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.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2013 $'000	Consolidated 2012 $'000
Financial assets		
Cash and cash equivalents	**681**	1,589
Other financial assets	**1**	1
	682	1,590
Financial liabilities		
Financial liabilities measured at amortised cost		
Term bank facility (net of capitalised transaction costs)	**20,571**	20,570
Working capital facility	**3,800**	1,500
	24,371	22,070
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	**109**	-
	24,480	22,070
Net exposure	**(23,798)**	(20,480)

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 2013 41% of the Group's borrowings were at a fixed rate of interest (2012: nil).

Interest rate exposure

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

Judgments of reasonably possible movements:	**Pre Tax Profit / (Loss) Increase / (Decrease) 2013 $'000**	2012 $'000	**Other Equity Reserves Increase / (Decrease) 2013 $'000**	2012 $'000
Group				
+1% (100 basis points)	**139**	249	**-**	-
- 0.5% (50 basis points)	**(53)**	(124)	**-**	-

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

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 (2012: 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.

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.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At 30 June 2013, 1.0% of the Group's debt is due to be retired in less than one year (2012: 0.7%), 97.1% of the Group's debt will mature within 18 months' time (2012: 97.7%) 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	
	2013 $'000	2012 $'000
6 months or less	**6,987**	14,978
6 – 12 months	**887**	149
1 – 5 years	**25,462**	22,505
Over 5 years	**-**	-
	33,336	37,632

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 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	**8,593**	**-**	**10**	**-**	**8,603**
	9,274	**-**	**10**	**-**	**9,284**
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	**3,182**	**-**	**(25,613)**	**-**	**(22,431)**

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Year ended 30 June 2012	**≤ 6 months $'000**	**6-12 months $'000**	**1 – 5 years $'000**	**> 5 years $'000**	**Total $'000**
Consolidated					
Financial assets					
Cash & cash equivalents	1,589	-	-	-	1,589
Trade & other receivables	14,330	-	4	-	14,334
	15,919	-	4	-	15,923
Financial liabilities					
Trade & other payables	13,629	-	1,200	-	14,829
Interest bearing loans & borrowings	150	-	22,436	-	22,586
Bank guarantees	-	-	852	-	852
	13,779	-	24,488	-	38,267
Net maturity	2,140	-	(24,484)	-	(22,344)

The difference between the contractual maturities of the Group's financial liabilities and management expectation of when those financial liabilities will be settled was explained by a provision in respect of a legal claim of $1,200,000 which has since been resolved.

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 2013					
Derivative liabilities – net settled	-	**-**	**109**	**-**	**109**
Net maturity	-	**-**	**109**	**-**	**109**
Year ended 30 June 2012					
Derivative liabilities – net settled	-	**-**	**-**	**-**	**-**
Net maturity	-	**-**	**-**	**-**	**-**

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market date.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

		30 June 2013			30 June 2012	
Consolidated	**Quoted market price (Level 1)**	**Valuation technique – market observable (Level 2)**	**Valuation technique – non market observable (Level 3)**	Quoted market price (Level 1)	Valuation technique – market observable (Level 2)	Valuation technique – non market observable (Level 3)
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Financial Assets						
Listed investments	**1**	**-**	**-**	1	-	-
	1	**-**	**-**	1	-	-
Financial liabilities						
Derivate instruments						
Interest rate swap	**-**	**109**	**-**	-	-	-
	-	**109**	**-**	-	-	-

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted on active markets, the Group uses valuation techniques such as present value techniques, comparisons to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps.

19. EXPENDITURE COMMITMENTS

a) Operating leases - properties

	Consolidated 2013 Minimum rentals $'000	Consolidated 2012 Minimum rentals $'000
Less than one year	**1,661**	1,403
Later than one year but less than five years	**994**	1,275
	2,655	2,678

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.

b) Operating leases – motor vehicles

	Consolidated 2013 Minimum rentals $'000	Consolidated 2012 Minimum rentals $'000
Less than one year	**-**	5
Later than one year but less than five years	**-**	-
	-	5

The Group previously leased a fleet of vehicles under operating leases. The leases typically ran for periods of 2 to 5 years with an option to renew after that date.

c) Finance leases and hire purchase

	Consolidated 2013 Minimum rentals $'000	Consolidated 2012 Minimum rentals $'000
Less than one year	**326**	297
Later than one year but less than five years	**492**	305
	818	602
Less future finance charges	**(113)**	(86)
Total finance lease and hire purchase liabilities	**705**	516
Reconciled to:		
Current liability	**242**	150
Non-current liability	**463**	366
	705	516

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. Subsequent renewal of the contracts is at the option of the entity that holds the lease.

20. STATEMENT OF CASH FLOWS

a) Reconciliation of Cash

	Consolidated 2013 $'000	Consolidated 2012 $'000
Cash at bank and in hand	**681**	1,589
	681	1,589

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 2013 $'000	Consolidated 2012 $'000
Net profit	**3,092**	1,709
Adjustments for:		
Depreciation, amortisation and impairment of non-current assets	**1,753**	2,075
Fair value of interest rate contracts	**109**	(151)
Loss/(profit) on sale of fixed assets	**(6)**	-
Loss/on sale of discontinued operations	**-**	401
Deferred tax on discontinued operations	**-**	7
Foreign exchange gain	**(52)**	(134)
Amortisation of capitalised finance fees	**152**	177
Doubtful debts expense	**-**	16
Stock obsolescence (benefit)/expense	**(17)**	(28)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**5,731**	(2,157)
(Increase)/decrease in inventories	**(2,878)**	1,225
Increase/(decrease) in trade and other payables	**(6,878)**	2,983
(Increase)/decrease in deferred tax assets	**(571)**	(410)
Increase/(decrease) in provisions	**23**	195
Net cash provided by operating activities	**458**	5,908

Non cash financing and investing activities

During the year the Group acquired property, plant and equipment with an aggregate value of $202,578 (2012: $261,878) 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 2013 $'000	Consolidated 2012 $'000
Total facilities at reporting date		
Term facility	**20,700**	20,700
Working capital facility comprising:		
- revolving cash advance facility	**3,800**	5,800
-bank overdraft facility	**1,000**	1,000
- bank guarantee facility	**1,200**	1,200
	26,700	28,700
Facilities used at reporting date		
Term facility	**20,700**	20,700
Working capital facility comprising:		
- revolving cash advance facility	**3,800**	1,500
-bank overdraft facility	**-**	-
- bank guarantee facility	**680**	852
	25,180	23,052
Facilities unused at reporting date		
Term facility	**-**	-
Working capital facility comprising:		
- revolving cash advance facility	**-**	4,300
-bank overdraft facility	**1,000**	1,000
- bank guarantee facility	**520**	348
	1,520	5,648

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

Traffic Technologies Signal & Hardware Division Pty Ltd
Traffic Technologies Traffic Management Division Pty Ltd
De Neefe Pty Ltd
Traffic Technologies Traffic Hire Pty Ltd
Sunny Sign Company Pty Ltd
Pro-Tech Traffic Management Pty Ltd
KJ Aldridge Investments Pty Ltd

- Aldridge Traffic Group Pty Ltd
- Excelsior Diecasting Pty Limited
- Aldridge Traffic Systems Pty Ltd
- Aldridge Plastics Pty Ltd

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

On 27 August 2013 the Company declared a fully franked final dividend of $0.002 (0.2 cents) per share. The dividend is payable on or about 20 September 2013 and is covered by the Company's Dividend Reinvestment Plan. The Company will fund any shortfall under the Dividend Reinvestment Plan by issuing shares pursuant to a Shortfall Placement Agreement.

24. AUDITOR'S REMUNERATION

Amounts received or due and receivable by:

	Consolidated 2013 $	Consolidated 2012 $
Audit or review of the financial report of the entity and any other entity in the Group		
- Current auditors – Moore Stephens Melbourne	**90,000**	67,000
- Previous auditors - BDO Audit (NSW-VIC) Pty Ltd	**-**	23,000
	90,000	90,000

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	
	2013	2012
Compensation by Category:	**$**	$
Key Management Personnel		
Short-term employee benefits	**1,070,406**	902,743
Post employment benefits	**86,188**	98,891
Other long-term benefits	**57,123**	28,713
	1,213,717	1,030,347

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 2013 or at the date of this report (2012: 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 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.

30 June 2012	Balance at beginning of period 1 July 2011 No.	Granted as remuneration No.	On exercise of Options No.	Net change other # No.	Balance at end of period 30 June 2012 No.
Directors					
Mr. Alan Brown	2,856,965	-	-	335,000	3,191,965
Mr. Con Liosatos	10,129,377	-	-	4,934,542	15,063,919
Mr Ray Horsburgh	328,400	-	-	-	328,400
Total	13,314,742	-	-	5,269,542	18,584,284
Executives					
Mr. Peter Crafter	10,000	-	-	-	10,000
Total	10,000	-	-	-	10,000

26. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating/reportable segments based on the internal reports that are reviewed and used by the Managing Director (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The reportable segments are identified by management based on the manner in which the products are sold and the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the Managing Director on at least a monthly basis. The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Types of products and services

Traffic Products

Following the sale of the Traffic Hire business in December 2011, the Group has only one business segment: Traffic Products. The Traffic Products division specialises in the design, manufacture and installation of traffic signals, 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.

Traffic Services

The Traffic Hire business, which provided equipment hire services to road traffic authorities and construction companies, was sold in December 2011 and has been reported as discontinued operations.

Accounting policies and intersegment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the comparative period except as detailed below.

Inter-entity sales

Inter-entity sales are recognised based on internally set transfer prices. The prices are reviewed periodically to reflect what the business operations could achieve if they sold their output and services to external parties at arm's length.

Segment loans payable and loans receivable

Segment loans are initially recognised at the consideration received excluding transaction costs. Inter-segment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

Income tax expense

Current income tax expense is not calculated at the operating segment level; however, effect is given for taxable or deductible temporary differences (deferred tax expense) at the operating segment level. It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

26. OPERATING SEGMENTS (continued)

Reportable segments

The following tables present revenue and profit information regarding reportable segments for the financial years ended 30 June 2013 and 30 June 2012 and segment asset and liability information as at 30 June 2013 and 30 June 2012.

Year Ended 30 June 2013

	Traffic Products	Discontinued Operations	Consol- idated
	$'000	$'000	$'000
Revenue			
Sales to external customers	45,205	-	45,205
Inter-segment sales	602	-	602
Total segment revenue	45,807	-	45,807
Inter-segment elimination			(602)
Interest revenue			12
Total revenue (refer to note 2)			45,217
Segment EBIT	8,218	-	8,218
Finance costs	(1,252)	-	(1,252)
Segment gain before tax	6,966	-	6,966
Total segment gain before tax			6,966
Finance costs			(539)
Discontinued operations			-
Corporate costs			(3,904)
Profit for the year from continuing operations before income tax per the statement of comprehensive income			2,523
Segmental income tax benefit/(expense)	(19)	-	(19)
Total segment income tax expense			(19)
Corporate costs			588
Total income tax benefit			569

26. OPERATING SEGMENTS (continued)

As at 30 June 2013

	Traffic Products	Discontinued Operations	Consol-idated
	$'000	$'000	$'000
Segment assets	**24,407**	**-**	**24,407**
Total segment assets			**24,407**
Unallocated:			
Cash			**40**
Receivables			**273**
Property, plant & equipment			**183**
Intangible assets			**30,769**
Deferred tax asset			**1,343**
Total assets as per the statement of financial position			**57,015**
Segment liabilities	**8,103**	**-**	**8,103**
Total segment liabilities			**8,103**
Unallocated:			
Payables			**530**
Interest-bearing liabilities			**24,498**
Provisions			**335**
Derivative financial instruments			**109**
Total liabilities as per the statement of financial position			**33,575**

26. OPERATING SEGMENTS (continued)

Year Ended 30 June 2012

	Traffic Products	Discontinued Operations	Consol-idated
	$'000	$'000	$'000
Revenue			
Sales to external customers	53,025	968	53,993
Inter-segment sales	339	4	343
Total segment revenue	53,364	972	54,336
Inter-segment elimination			(343)
Interest revenue			44
Total revenue (refer to note 2)			54,037
Segment EBIT	8,204	230	8,434
Finance costs	(2,030)	(3)	(2,033)
Segment gain before tax	6,174	227	6,401
Total segment gain before tax			6,401
Finance costs			(455)
Discontinued operations			(227)
Corporate costs			(4,247)
Profit for the year from continuing operations before income tax per the statement of comprehensive income			1,472
Segmental income tax benefit/(expense)	723	(7)	716
Total segment income tax benefit			716
Discontinued operations			7
Corporate costs			(305)
Total income tax benefit			418

26. OPERATING SEGMENTS (continued)

As at 30 June 2012

	Traffic Products $'000	Discontinued Operations $'000	Consolidated $'000
Segment assets	28,616	-	28,616
Total segment assets			28,616
Unallocated:			
Cash			155
Receivables			119
Property, plant & equipment			235
Intangible assets			30,861
Deferred tax asset			44
Total assets as per the statement of financial position			60,030
Segment liabilities	16,194	-	16,194
Total segment liabilities			16,194
Unallocated:			
Payables			961
Interest-bearing liabilities			22,258
Provisions			269
Total liabilities as per the statement of financial position			39,682

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 8% of external revenue (2012: 35%). The next most significant customer accounts for 6% (2012: 8%) of external revenue.

Geographical information

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

Revenue by geographic location:

	Consolidated 2013 $'000	Consolidated 2012 $'000
Australia	**41,863**	50,924
Overseas	**3,354**	2,141
Total	**45,217**	53,065

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:

	2013 $'000	2012 $'000
Balance sheet		
Current assets	**8,924**	7,509
Total assets	**52,879**	51,515
Current liabilities	**48,284**	40,505
Total liabilities	**66,996**	61,244
Shareholders' equity		
Issued capital	**42,015**	41,663
Retained earnings	**(57,132)**	(52,392)
Share-based payments reserve	**1,000**	1,000
Total shareholders' equity	**(14,117)**	(9,729)
(Loss) / profit for the year	**(4,388)**	2,685
Total comprehensive income	**(4,388)**	2,685
Guarantees entered into by the parent entity^	**680**	852

^ 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.

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 cash flows, statement of changes in equity 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 2013 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 7 to 10 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2013, 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 2013

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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 2013, 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 2013 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 7 to 10 of the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

Moore Stephens

MOORE STEPHENS
Chartered Accountants

Nick Michael
Partner

Melbourne

27 August 2013

ASX Additional Information
As at 7 August 2013

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 7 August 2013.

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	140	17,593
1,001 - 5,000	39	108,463
5,001 - 10,000	50	406,040
10,001 - 100,000	409	18,188,553
100,001 and over	179	163,083,173
	817	181,803,822
Holdings less than a marketable parcel	194	214,083

b) Twenty Largest Holders

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

	Name	**Ordinary Shares Number**	**Percentage**
1.	LIOSATOS SUPERANNUATION FUND PTY LTD <LIOSATOS SUPER FUND A/C>*	11,717,162	6.44%
2.	BANNABY INVESTMENTS PTY LTD <BANNABY SUPER FUND A/C>	10,250,000	5.64%
3.	K J ALDRIDGE INVESTMENT GROUP PTY LTD	9,468,562	5.21%
4.	SEASPIN PTY LTD <APHRODITE A/C>	8,463,192	4.66%
5.	GP MANAGEMENT P/L <G&R S/F A/C>	8,281,814	4.56%
6.	DE LA HAYE SUPER FUND PTY LTD <DE LA HAYE SUPER FUND A/C>	6,428,000	3.54%
7.	BROWNLOW PTY LTD	5,730,000	3.15%
8.	PETHOL (VIC) PTY LTD <MACDY NO 5 SUPER FUND A/C>	5,653,708	3.11%
9.	KENSINGTON CAPITAL MANAGEMENT PTY LTD	5,189,270	2.85%
10.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	4,650,000	2.56%
11.	MR ADRIAN RICHARD CREEDON	3,500,000	1.93%
12.	MR LAMBROU LIOSATAU*	3,346,757	1.84%
13.	MR ALAN JOHN BROWN + MRS PAULA JANET BROWN <A & P BROWN FAMILY S/F A/C>*	3,294,932	1.81%
14.	FRIJLINK PTY LTD <HUGO FRIJLINK FAMILY A/C>	3,000,456	1.65%
15.	MR VICTOR JOHN PLUMMER	3,000,000	1.65%
16.	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	2,900,000	1.60%
17.	MR SAMUEL KAVOURAKIS + MRS TOULA KAVOURAKIS <KAVOURAKIS SUPER FUND A/C>	2,624,501	1.44%
18.	DOLPHIN CAPITAL PARTNERS PTY LTD	2,509,688	1.38%
19.	JMW & LOB BUSINESS GROUP PTY LTD	2,000,000	1.10%
20.	PAL NOMINEES PTY LTD <ANGELA WOOD SUPER FUND A/C>	1,750,000	0.96%
	Total	103,758,042	57.07%

* 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**
Mr. Con Liosatos*	15,063,919	8.29
Bannaby Investments Pty Ltd	10,250,000	5.64
K J Aldridge Investment Group Pty Ltd	9,468,562	5.21

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


TEMPORARY
EXIT TO
BULLA RD


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