

# ASX ANNOUNCEMENT

25 February 2019

Redflex Holdings Limited | ABN 96 069 306 216

Redflex

## FY2019 First Half Year Results

Redflex Holdings Limited (**ASX: RDF**) releases its first half-year results for FY2019. **Attached** is the ASX Appendix 4D.

### About Redflex

The Redflex Group has established itself as a world leader in developing and implementing intelligent traffic management products and services. Redflex develops, manufactures and operates a wide range of platformed based solutions including red light camera, speed camera, auto number plate recognition (ANPR) and school bus stop arm camera systems, all utilising advanced sensor and image capture technologies enabling active management of state and local motorways.

The Redflex Group runs its own systems engineering operations, system integration technologies and innovation centre for research and development. With our continuous development of new safety products, the Redflex Group has been helping to improve safety and alleviate congestion on roadways for more than 20 years.

Redflex Holdings Limited was listed on the Australian Securities Exchange in January 1997.

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## **REDFLEX HOLDINGS LIMITED**

ABN: 96 069 306 216

ASX CODE: RDF

## **APPENDIX 4D**

### **AND REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

### **RESULTS FOR ANNOUNCEMENT TO THE MARKET**

Reporting period

Previous corresponding period

Half-year ended 31 December 2018 "H1 FY19"

Half-year ended 31 December 2017 "H1 FY18"

## APPENDIX 4D HALF-YEAR REPORT SIX MONTHS ENDED 31 DECEMBER 2018

<b><u>RESULTS FROM OPERATIONS</u></b>				<b><u>H1 FY19</u></b> <b><u>(\$'000)</u></b>	<b><u>H1 FY18</u></b> <b><u>(\$'000)</u></b>
Revenue from operations	Up	7.0%	to	56,977	53,230
Earnings before depreciation, amortisation, finance costs and tax (EBITDA)	Up	63.8%	to	9,070	5,538
Loss before tax	Improved	79.7%	to	(1,014)	(4,987)
Loss after tax	Improved	91.3%	to	(945)	(10,810)
				<b><u>H1 FY19</u></b> <b><u>Cents</u></b>	<b><u>H1 FY18</u></b> <b><u>Cents</u></b>
Basic / diluted loss per share	Improved	93.3%	to	(0.63)	(9.37)
Net tangible asset backing per ordinary security	Improved	16.2%	to	41.04	35.31
<b><u>DIVIDENDS (DISTRIBUTIONS)</u></b>					
No dividends have been declared in respect of H1 FY19 or H1 FY18					

A review of the results for Redflex Holdings Limited ("**Redflex**" or "**the Company**") and its consolidated entities (collectively, "**the Group**" or "**we**" or "**our**") is included in the attached Directors' Report.

It is recommended that this Interim Financial Report for the half-year ended 31 December 2018 ("**Half-Year Report**") be read in conjunction with the Annual Report for the year ended 30 June 2018 and be considered together with any public announcements made by Redflex up to 25 February 2019 in accordance with the Redflex's continuous disclosure obligations (a copy of which is available on the Company's website ([http://www.redflex.com/application/files/3015/2349/3676/Continuous\\_Disclosure\\_Policy.pdf](http://www.redflex.com/application/files/3015/2349/3676/Continuous_Disclosure_Policy.pdf))).

This Half-Year Report is prepared in accordance with International Financial Reporting Standards ("**IFRS**"). This Half-Year Report has been reviewed by the Group's auditors, PricewaterhouseCoopers ("**PwC**"), and PwC's conclusion is attached.

Unless otherwise stated, all currencies are denominated in Australian dollars.

### Note regarding non-IFRS financial information

- Throughout this Half-Year Report, Redflex has included certain non-IFRS financial information, including EBITDA, net debt and free cash flow.
- This information is presented to assist readers in making appropriate comparisons with prior periods and to assess the performance of the Group. EBITDA is a measure frequently quoted in the industry and forms the basis upon which many investors, financiers and analysts are briefed.
- Non-IFRS information is not reviewed by PwC.

## **INTERIM FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

### **Directors' Report**

Your Directors submit their report for the half-year ended 31 December 2018.

### **Directors**

The following persons were Directors of Redflex during the half-year and up to the date of this Half-Year Report. All directors held their position as Director throughout the entire half-year unless otherwise stated;

Adam Gray	Chairman
Mark Talbot	Group Chief Executive Officer
Robert DeVincenzi	Non-Executive Director
Herman Schwarz	Non-Executive Director
Clark Davey	Non-Executive Director
David McIntyre	Non-Executive Director
Terry Winters	Non-Executive Director

### **Company Secretary**

Craig Durham has held the position of Group General Counsel and Company Secretary for the half year up to the date of this Half-Year Report.

## **OPERATING AND FINANCIAL REVIEW**

### **Highlights**

Underlying performance of the Group for the half year ending 31 December 2018 (H1 FY19) has significantly improved compared to the same period in FY18. As noted in our review of FY18, we aligned the Company to operate more efficiently in a global market and were deliberate in our pursuit of profitable revenue growth opportunities. In summary:

- EBITDA of \$9.1m represents growth of 64% on the prior year. Revenue for the half year of \$57.0m represents growth of 7% on the prior half year.
- New business opportunities with a total contract value (TCV) of \$21.1m have been contracted during H1 FY19, highlighted by new contracts in the key geographies in which Redflex operates. These new contracts are a mix of annuity and project streams and we expect this to position the Company for revenue generation over the remainder of FY19.
- Strategically important customer orders have been received for the sale of Halo units into North America and equipment upgrades in the United Kingdom. These orders were finalised after extensive demonstrations and trials with our customers and reflect the benefit of our reinvigorated customer engagement and product investment approach.
- We continue to invest in our business development and sales capability. Further pilot programs and trials have been launched during H1 FY19 to validate with our customers our advanced technology solutions and to ensure our product development is aligned with market needs.

We maintain a strong pipeline of sales opportunities that are geographically diverse. Our focus for the remainder of FY19 is to continue to drive opportunity conversion to grow revenue and profitability. We have demonstrated through H1 FY19 that the changes we have made to our business deliver improved performance. We will continue to execute our plan to drive growth through the second half of FY19.

### **Financial Performance**

For H1 FY19 revenue from operations was \$57.0 million which is an increase of 7.0% compared to the first half of the previous financial year (H1 FY18: \$53.2 million).

The increase in revenue reflects:

- Strong growth in our International operations driven by increased project related revenue, additional revenue from the expansion of the New South Wales Mobile Speed Operations in July 2018, and increased maintenance revenue from a number of prior year projects which have transitioned to full maintenance support.
- Partly offset by lower revenue from the Americas reflecting completion of programs in Mexico and Jacksonville, FL in the prior financial year.

The Group EBITDA was \$9.1 million compared to \$5.5 million in the prior comparative period. The improved result was driven by increased revenue and growth in EBITDA margins to 15.9% (prior comparative period was 10.4%). Growth in EBITDA margins reflects continued efficiency improvements and the utilization of the cost base to deliver increased revenue.

Net loss before tax for the Group was \$1.0 million in H1 FY19 compared to a loss of \$5.0 million in the prior half year. The improved result is attributable to improved EBITDA.

Net loss after tax for the Group was \$0.9 million in H1 FY19 compared to a loss of \$10.8 million in the previous half year. The prior year net loss after tax included recognition of tax expense due to the reduction of U.S. based deferred tax assets attributable to the change in the Federal corporate tax rate to 21% in that jurisdiction. The effective tax rate in the current period more closely aligns to the statutory rates in the jurisdictions in which we operate.

### Year on year comparison

A comparison of the Group's performance for H1 FY19 and H1 FY18 is as follows.

	H1 FY19 \$'000	H1 FY18 \$'000
<b>Earnings before interest, tax, depreciation, and amortisation (EBITDA)</b>	<b>9,070</b>	<b>5,538</b>
Less:		
Group restructure costs	-	598
Legal costs associated with debt recovery	-	708
Depreciation	6,353	6,312
Amortisation	3,217	2,441
Net finance costs	514	466
<b>Loss before tax</b>	<b>(1,014)</b>	<b>(4,987)</b>

	H1 FY19 \$'000	H1 FY18 \$'000	% Change
<b>Segment revenue</b>			
The America's Traffic business	30,254	32,001	(5.5%)
Australian/International Traffic business	26,723	21,229	25.9%
<b>Total Consolidated Revenue</b>	<b>56,977</b>	<b>53,230</b>	<b>7.0%</b>
<b>Earnings before interest, tax, depreciation, and amortisation</b>			
EBITDA from combined Traffic businesses	9,941	6,360	56.3%
Head Office costs	(871)	(822)	(6.0%)
<b>EBITDA</b>	<b>9,070</b>	<b>5,538</b>	<b>63.8%</b>
<b>Pre-tax loss</b>			
Pre-tax loss from combined Traffic businesses	(143)	(4,165)	96.6%
Head Office costs	(871)	(822)	(6.0%)
<b>Pre-tax loss</b>	<b>(1,014)</b>	<b>(4,987)</b>	<b>79.7%</b>
<b>Net loss after tax</b>			
	<b>(945)</b>	<b>(10,810)</b>	<b>91.2%</b>

## Review of Redflex International

Our focus in the International business has been to grow our business development and sales capability to support the robust sales opportunity pipeline. We remain excited by the quality of the pipeline and, pleasingly, have won a number of contracts in our key geographies of Australia, Europe and the Middle East during H1 FY19.

Revenue for H1 FY19 increased 26% to \$26.7 million compared to \$21.2 million for the comparative period in FY18. The growth in revenue is driven by increased project sales, additional revenue from the expanded New South Wales Mobile Speed Services contract which commenced in July 2018, and increased maintenance revenue in the United Kingdom, New Zealand and New South Wales as prior year projects have transitioned to maintenance support.

As a result of higher revenue, EBITDA from International operations grew to \$3.8 million (\$1.0 million for the previous half year).

During the period we received a further payment of A\$0.4m from a former Saudi Arabian customer. This represents a part repayment of the agreed settlement amount of A\$3.0 million associated with a long standing receivable. To date we have received approximately A\$1.4m of the agreed settlement. We continue to pursue the remaining balance which remains fully provisioned due to the protracted nature of the recovery.

## Review of the America's Operations

We continue to pursue new revenue opportunities in the U.S. while improving the efficiency of our operating model to maximise earnings and lift customer satisfaction levels to aid in customer retention. We have also focused on sales pipeline opportunities in Canada to grow our revenue in that jurisdiction. During H1 FY19 we were successful in selling equipment upgrades into Canada, have been awarded a new program in Pasco, WA which will commence during the second half of the year, expanded a number of existing programs and have maintained customer retention rates at greater than 90%.

Revenue for H1 FY19 decreased 5.5% to \$30.3 million compared to \$32.0 million for the comparative period. When adjusted for foreign exchange movements during the period, underlying revenue in US\$ declined by 9.7%. The reduction in revenue is due the completion of the Mexico and Jacksonville programs in the prior financial year.

Notwithstanding reduced revenue, EBITDA grew by 13.6% to \$6.1 million. The improved result reflects the benefit of improvements to the operating model which have yielded significant cost reductions compared to the prior half year.

## Financial Resources

Through its U.S. subsidiary, Redflex Traffic Systems Inc, the Company has a US\$10 million credit facility agreement with Western Alliance Bank consisting of a US\$5 million non-revolving line of credit and a US\$5 million three-year term loan.

The term loan has a maturity of 14 December 2020. At 31 December 2018, US\$4.4 million remained outstanding against the term loan.

The non-revolving line of credit has been established to support capital requirements for new U.S. based customer programs. At 31 December 2018, this facility was undrawn. Any drawdown under this facility must be completed prior to January 2021. The maturity date will be determined for each draw based on the applicable project entry under the Business Loan Agreement.

The Company has a cash balance A\$20.1 million which includes restricted cash of A\$4.3 million. Restricted cash is revenue collected on behalf of customers. In addition, the Company holds a A\$4.0 million facility with the Commonwealth Bank of Australia for bank guarantees and bonds required to support bids and contracts with certain customers.

## Subsequent events

Other than the matters disclosed within this Directors' Report in respect of the litigation settlement and the new bilateral working capital facility there has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect the operations of the Group.

## Rounding

The amounts contained in this report and in the financial report have been rounded (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

### **Auditor's Independence**

The Group has received the Auditor's Independence Declaration dated 25 February 2019.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'Adam Gray', is written over a light gray rectangular background.

**Adam Gray**

Chairman  
Melbourne  
25 February 2019





## *Auditor's Independence Declaration*

As lead auditor for the review of Redflex Holdings Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Redflex Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to be 'JP' with a long horizontal stroke extending to the right.

Jason Perry  
Partner  
PricewaterhouseCoopers

Melbourne  
25 February 2019

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2018

	31-Dec-18 \$'000	31-Dec-17 \$'000
Revenue from operations	56,977	53,230
<b>Total revenue</b>	<b>56,977</b>	<b>53,230</b>
Cost of goods sold	30,732	24,988
<b>Cost of sales</b>	<b>30,732</b>	<b>24,988</b>
<b>Gross profit</b>	<b>26,245</b>	<b>28,242</b>
Sales and marketing related expenses	2,098	3,934
Administrative related expenses	15,077	18,770
<b>Earnings before depreciation, amortisation, finance costs and tax</b>	<b>9,070</b>	<b>5,538</b>
Executive termination costs and property exit charges	-	598
Legal costs associated with debt recovery	-	708
Amortisation of intangibles	3,217	2,441
Depreciation of plant and equipment	6,353	6,312
<b>Loss before tax and financing costs</b>	<b>(500)</b>	<b>(4,521)</b>
Net finance costs	514	466
<b>Loss before tax</b>	<b>(1,014)</b>	<b>(4,987)</b>
Income tax (benefit) / expense	(69)	5,823
<b>Net loss for the period</b>	<b>(945)</b>	<b>(10,810)</b>
<b>Other Comprehensive Income</b>		
<b>Items that may be reclassified subsequently to profit and loss</b>		
Foreign currency translation	1,907	(998)
<b>Total comprehensive income for the period</b>	<b>962</b>	<b>(11,808)</b>
<b>Earnings per share ("EPS") attributable to ordinary equity holders</b>		
- basic / diluted EPS for the half-year ended	(0.63) cents	(9.37) cents

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	31-Dec-18 \$'000	30-Jun-18 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		20,054	18,864
Trade and other receivables		27,152	26,897
Inventories		5,661	5,741
Other current assets		3,099	2,643
<b>Total Current Assets</b>		<b>55,966</b>	<b>54,145</b>
<b>Non-Current Assets</b>			
Plant and equipment		37,115	38,551
Deferred tax asset		18,445	18,603
Intangible assets		16,502	18,633
Other financial assets		441	441
Other non-current assets		171	165
<b>Total non-current assets</b>		<b>72,674</b>	<b>76,393</b>
<b>TOTAL ASSETS</b>		<b>128,640</b>	<b>130,538</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables		16,804	17,867
Interest bearing liabilities		834	796
Deferred revenue		1,115	2,395
Income tax payable		297	192
Provisions		8,192	8,015
<b>Total Current Liabilities</b>		<b>27,242</b>	<b>29,265</b>
<b>Non-Current Liabilities</b>			
Trade and other payables		9,990	10,403
Interest bearing liabilities		5,424	5,551
Deferred tax liabilities		3,567	4,410
Provisions		4,262	4,568
<b>Total Non-Current Liabilities</b>		<b>23,243</b>	<b>24,932</b>
<b>TOTAL LIABILITIES</b>		<b>50,485</b>	<b>54,197</b>
<b>NET ASSETS</b>		<b>78,155</b>	<b>76,341</b>
<b>Equity</b>			
Contributed equity	4	117,387	117,387
Reserves		9,115	6,356
Accumulated losses		(48,347)	(47,402)
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>78,155</b>	<b>76,341</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2018

	Contributed Equity \$'000	Foreign Currency Translation Reserve \$'000	Employee Equity Benefits Reserve \$'000	Accumulated losses \$'000	Total Equity \$'000
<b>At 1 July 2017</b>	<b>101,765</b>	<b>2,299</b>	<b>2,181</b>	<b>(35,282)</b>	<b>70,963</b>
Loss for the half-year	-	-	-	(10,810)	(10,810)
Currency translation differences	-	(998)	-	-	(998)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(998)</b>	<b>-</b>	<b>(10,810)</b>	<b>(11,808)</b>
Issue of share capital, net of costs	15,622	-	-	-	15,622
Cost of share based payments and options	-	-	791	-	791
<b>At 31 December 2017</b>	<b>117,387</b>	<b>1,301</b>	<b>2,972</b>	<b>(46,092)</b>	<b>75,568</b>
<b>At 1 July 2018</b>	<b>117,387</b>	<b>3,534</b>	<b>2,822</b>	<b>(47,402)</b>	<b>76,341</b>
Loss for the half-year	-	-	-	(945)	(945)
Currency translation differences	-	1,907	-	-	1,907
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>1,907</b>	<b>-</b>	<b>(945)</b>	<b>962</b>
Cost of share based payments and options	-	-	852	-	852
<b>At 31 December 2018</b>	<b>117,387</b>	<b>5,441</b>	<b>3,674</b>	<b>(48,347)</b>	<b>78,155</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2018

	31-Dec-18 \$'000	31-Dec-17 \$'000
<b>Operating activities</b>		
Receipts from customers	57,253	53,319
Payments to suppliers and employees	(50,940)	(51,596)
Chicago settlement payment	(1,418)	(6,406)
Interest paid	(212)	(204)
Income tax paid	(164)	(375)
<b>Net cash (used in) / inflows from operating activities</b>	<b>4,519</b>	<b>(5,262)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(2,496)	(3,494)
Capitalised development costs paid	(1,071)	(1,807)
<b>Net cash used in investing activities</b>	<b>(3,567)</b>	<b>(5,301)</b>
<b>Financing activities</b>		
Proceeds from borrowings	-	6,406
Repayment of borrowings	(396)	-
Proceeds received from capital raising net of costs	-	15,288
<b>Net cash inflow from financing activities</b>	<b>(396)</b>	<b>21,694</b>
Net increase in cash held	556	11,131
Effect of exchange rate changes on cash	635	(120)
Cash and cash equivalents at beginning of period	18,864	8,199
<b>Cash and cash equivalents at end of the period</b>	<b>20,054</b>	<b>19,210</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1 CORPORATE INFORMATION

Redflex Holdings Limited ("Redflex" or "the Company") and its subsidiaries (collectively, "the Group") is an Australian incorporated company limited by shares that are publicly traded on the Australian Securities Exchange (ASX) with the code RDF.

The nature of the operations and principal activities of the Group are described in Note 3.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation and new accounting standards

This consolidated financial report for the half-year ended 31 December 2018 ("**the Half-Year Report**") has been prepared in accordance with *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

The Half-Year Report does not include all notes of the type normally included within the annual general purpose financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the Group's Annual Report.

It is recommended that the Half-Year Report be read in conjunction with the Annual Report for the year ended 30 June 2018 and considered together with any public announcements made by the Company in accordance with the Group's continuous disclosure obligations under ASX listing rules (a copy of which is available on the Company's website ([www.redflex.com](http://www.redflex.com))).

The Half-Year Report has been prepared on a going concern basis, which assumes the normal continuity of business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

From 1 July 2018 the following new accounting standards have been adopted by the Group:

#### **AASB 15 Revenue from Contracts with Customers ("AASB 15")**

The Group has adopted AASB 15 as issued in May 2014 with the date of initial application being 1 July 2018. In accordance with the transition provisions in AASB 15 the standard has been applied using the modified retrospective approach. On this basis there were no restatements of prior comparative balances.

AASB 15 supersedes *AASB 18 – Revenue*, *AASB 111 Construction Contracts* and related interpretations and it applies to all revenue arising from contracts with customers, unless these contracts are in scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under *AASB 15 Revenue* is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

At 30 June 2018 all material contracts were assessed by the Group and it was determined that the adoption of AASB 15 had no significant impact on the Group. The updated accounting policy for revenue has been disclosed below.

#### **AASB 9 Financial Instruments ("AASB 9")**

The Group has adopted AASB 9 as issued in July 2014 with the date of initial application being 1 July 2018. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated. AASB 9 replaces *AASB 139 Financial Instruments: Recognition and Measurement* ("AASB 139"), bringing together all three aspects of the accounting for financial instruments: clarification and measurement; impairment; and hedge accounting. The accounting policies have been updated to reflect the application of AASB 9 below.

#### **Measurement and classification**

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been de-recognised as at 1 July 2018. In this regard the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 July 2018 as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 9 (i.e. prior to 1 July 2018)	New Measurement category under AASB 9 (i.e. from 1 July 2018)
Cash and cash equivalents	Loans and receivables	Financial asset at amortised cost
Trade and other receivables	Loans and receivables	Financial asset at amortised cost
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost
Interest bearing liabilities	Financial liability at amortised cost	Financial liability at amortised cost

The change in classification has not resulted in any re-measurement adjustments at 1 July 2018.

## NOTES TO THE FINANCIAL STATEMENTS

### Impairment of financial assets

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

At 1 July 2018, the Group reviewed and assessed the existing financial assets for impairment using reasonable and supportable information. In accordance with AASB 9, where the Group concluded that it would require undue cost and effort to determine the credit risk of a financial asset on initial recognition, the Group recognises lifetime ECL. The result of the assessment is as follows;

Items existing at 1 July 2018 that are subject to the impairment provisions of AASB 9	Credit risk attributes	Cumulative additional loss allowance required on 1 July 2018
Cash and cash equivalents	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable financial institutions.	-
Trade receivables	The Group applied the simplified approach and concluded that the lifetime ECL would be negligible on receivable balances not already provided for and therefore no loss allowance was required at 1 July 2018.	-
Other financial asset	The other financial asset relates to an investment in Go-Safe in Ireland. The Group has assessed the credit risk in respect of this investment as low.	-

### (b) Changes in accounting policies

Other than the policies described below there have been no changes in accounting policies during the half-year ended 31 December 2018.

#### Revenue Recognition

The Group recognised revenue as follows;

##### Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group identifies the performance obligations in the contract; determines the transaction price, which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration with the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential adds ons or bonuses from the customer and any other contingent events. Such estimates are determined using either the "expected value" or "most likely amount" method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate liability.

##### Sale of goods

Revenue from the sale of goods is recognised based on the percentage of completion for system development and installation. The percentage of completion methodology is used where the contract outcome can be reliably measured and control of the right to be compensated for the goods has been attained.

##### Rendering of services

Revenue from a contract to provide services is recognised as the services are rendered based on agreed contract rates.

## NOTES TO THE FINANCIAL STATEMENTS

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### Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for the financial assets at fair value through the profit and loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification.

Financial assets are derecognised when the right to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset its carrying value is written off.

### Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

### Reclassification of expenditure

During the half year, certain U.S. based IT related costs were reclassified from Administrative expenses to Cost of sales. The reclassification reflects improved methods implemented to map IT costs between project based work and administrative costs. If adjusted for this reclassification, prior half year Cost of sales increase by \$2.7million to \$27.7 million and Administrative expenses reduce by \$2.7 million to \$16.1 million. There is no change to the reported net loss as a result of the reclassification.

### (c) Change in accounting estimates

There were no significant changes in accounting estimates for the half-year ended 31 December 2018.

### (d) Significant accounting judgments, estimates and assumptions

The preparation of the Half- Year Report requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on 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. The Half-Year Report does not include any adjustments relating to the recoverability and classification of recorded asset amounts that might be necessary should the Group's judgments differ from future circumstances.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made at 31 December 2018. 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.

### Impairment of plant and equipment and capitalised development costs

At each reporting date the Group assesses whether there is an indicator that the carrying value of assets contained within one of the Group's Cash Generating Unit's ("CGU's") may be impaired. The Cash Generating Units ("CGU's") identified by the Company are as follows:-

- The Americas traffic operations; and
- Australian and International traffic operations.



## NOTES TO THE FINANCIAL STATEMENTS

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### (d) Significant accounting judgments, estimates and assumptions (continued)

The Company considers its relationship between its market capitalization and book value of equity, among other factors, when reviewing for indicators of impairment. At 31 December 2018, the market capitalization of the Company was above the book value.

Notwithstanding, the Group made a formal assessment of the recoverable amount generated by the relevant CGU. Where the carrying amount of assets contained within the CGU exceeds its recoverable amount the assets contained within the CGU are considered impaired and written down to their recoverable amount.

Recoverable amounts are calculated in line with each CGU's valuation methodology which, is based on a value in use model. Impairment losses are recognised immediately in the income statement.

As at 31 December 2018 management has assessed the carrying value of assets in each CGU. Based on the results of the tests impairment charges were not required in the current period. The assumptions used in this modelling were consistent with the approach disclosed in the 30 June 2018 Annual Report. In determining the calculation management has applied significant judgment, including forward estimates for revenue, expenses, cash flows, liabilities and broader operating outcomes.

The key estimates and assumptions used to determine the recoverable amount of a CGU are based on management's current expectation after considering past experience and external information, and are considered to be reasonably achievable. However significant changes in any of these key assumptions may result in a CGU's carrying value exceeding its recoverable amount requiring an impairment charge to be recognised at a future date.

#### Depreciation of property, plant and equipment

Plant and equipment mainly consists of red light and speed camera detection equipment. These assets are installed in various cities throughout the USA, New Zealand and Mexico. The contract periods for which these assets are installed vary significantly between contracts, however most contract periods are at least five years and have extension options of either one year or two years.

The Group depreciates these assets over a seven to ten year period on a straight line basis regardless of the length of the contract. The major components of the installation relate to the construction and civil engineering works associated with the installation, in addition to the camera and detection equipment. The Group expects the infrastructure to last for decades once installed, whilst the camera and detection equipment is expected to last for a period approximating seven years.

Despite the longevity of the installation it is impaired upon termination or non-renewal of a contract to process traffic violations (and, in some instances, the outcome of many of these events is outside the control of the Group). Accordingly, it is difficult to assess the appropriate length of time over which to depreciate these assets.

#### Amortisation of capitalised development costs

Capitalised development costs are mainly attributed to capitalised labour associated with the development of new technology within the traffic enforcement industry. The contract periods for which the technology is used may vary and similar technology can be utilised for multiple contracts.

The Group amortises these assets over a five year period on a straight line basis regardless of the length of individual contracts for which the technology is used. Management assesses development costs at each reporting date and if the technology is no longer in use it is considered impaired. Accordingly, it is difficult to assess the appropriate length of time over which to amortise these assets.

#### Recoverability of receivables

The Group continues to encounter uncertainties surrounding some contracts in certain countries including in the Middle East and Mexico. Due to the uncertainty around our ultimate collection and timing of the receipt of these receivables, the Group continues to provide against the likelihood of ultimate collectability. At 31 December 2018 the Group has an allowance for impairment losses of \$8.3m for recoverability of these receivables.

#### Long service leave provision

In determining the present value of the liability, probabilities have been applied in estimating the proportion of employees who will be entitled to long service leave and a percentage applied to reflect pay increases through promotion and inflation.

#### Asset retirement obligations

The asset retirement obligation liability is based on what management expects future costs will be based on experience in terminated contracts.

## NOTES TO THE FINANCIAL STATEMENTS

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### 3 SEGMENT INFORMATION

The operating businesses are organised and managed separately according to the nature of the products and services provided with each segment representing a strategic business unit that offers particular products and services to different markets. The Group identifies and reports on this basis to the chief operating decision maker (which for Redflex is the Group Chief Executive Officer).

The Group operates within two key markets, The Americas (incorporating Canada, the USA and South America) and Australia/International (which comprises all other businesses outside of the Americas). The Americas business is predominantly a Build Own Operate and Maintain ("**BOOM**") business providing fully outsourced traffic enforcement programs. The Australia/International business involves the sale of traffic enforcement products.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between operating segments. Those transfers are eliminated on consolidation of the Group's financial results

The following tables present revenue and profit information and certain asset and liability information regarding operating segments for the half-years ended 31 December 2018 and 31 December 2017.

## NOTES TO THE FINANCIAL STATEMENTS

### 3 SEGMENT INFORMATION – Continued

#### Half-year ended 31 December 2018

	The Americas	Segments Australian /International	Total
	\$'000	\$'000	\$'000
<b>Revenue</b>			
Revenue from operations	30,254	26,723	56,977
Inter-segment revenue	-	1,078	1,078
<b>Total segment revenue</b>	<b>30,254</b>	<b>27,801</b>	<b>58,055</b>
Inter-segment elimination			(1,078)
<b>Total consolidated revenue</b>			<b>56,977</b>
<b>Result</b>			
Earnings before interest tax, depreciation and amortisation	6,136	3,805	9,941
Depreciation	(4,320)	(2,033)	(6,353)
Amortisation	(42)	(3,175)	(3,217)
Inter-segment royalty	829	(829)	-
<b>Segment result</b>	<b>2,603</b>	<b>(2,232)</b>	<b>371</b>
<b>Head office result</b>			<b>(871)</b>
<b>Loss before tax and finance charges</b>			<b>(500)</b>
Finance charges			514
<b>Loss before income tax</b>			<b>(1,014)</b>
Income tax expense			(69)
<b>Net loss for the period</b>			<b>(945)</b>
<b>Assets and liabilities</b>			
Segment assets	66,187	56,776	122,963
Head office assets			5,677
<b>Total assets</b>			<b>128,640</b>
Segment liabilities	36,898	12,435	49,333
Head office liabilities			1,152
<b>Total liabilities</b>			<b>50,485</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 3 SEGMENT INFORMATION – Continued

#### Half-year ended 31 December 2017

	The Americas	Segments Australian /International	Total
	\$'000	\$'000	\$'000
<b>Revenue</b>			
Revenue from operations	32,001	21,229	53,230
Inter-segment revenue	-	155	155
<b>Total segment revenue</b>	<b>32,001</b>	<b>21,384</b>	<b>53,385</b>
Inter-segment elimination			(155)
<b>Total consolidated revenue</b>			<b>53,230</b>
<b>Result</b>			
Earnings before interest tax, depreciation and amortisation	5,400	960	6,360
Legal costs associated with debt recovery	-	(708)	(708)
Executive termination and property exit costs	-	(598)	(598)
Depreciation	(5,064)	(1,248)	(6,312)
Amortisation		(2,441)	(2,441)
Inter-segment royalty	770	(770)	-
<b>Segment result</b>	<b>1,106</b>	<b>(4805)</b>	<b>(3,699)</b>
<b>Head office result</b>			<b>(822)</b>
<b>Loss before tax and finance charges</b>			<b>(4,521)</b>
Finance charges			466
<b>Loss before income tax</b>			<b>(4,987)</b>
Income tax expense			5,823
<b>Net loss for the period</b>			<b>(10,810)</b>
<b>Assets and liabilities</b>			
Segment assets	62,540	52,330	114,870
Head office assets			11,508
<b>Total assets</b>			<b>126,378</b>
Segment liabilities	37,782	10,933	48,715
Head office liabilities			2,095
<b>Total liabilities</b>			<b>50,810</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 4 ISSUED AND QUOTED SECURITIES

Ordinary Securities	Total number	Date
Issued at 1 July 2018	149,094,285	
Vesting of performance rights	531,975	22 Aug 2018
Vesting of performance rights	592,172	10 Oct 2018
On issue at 31 December 2018	150,218,432	

### 4A ISSUED AND UNQUOTED PERFORMANCE RIGHTS

Unquoted performance rights	Total Number	Date
Issued at 1 July 2018	4,452,757	
Changes during the current half-year period		
Vesting of performance rights	(531,975)	22 Aug 2018
Issue of performance rights	1,719,494	10 Oct 2018
Vesting of performance rights	(592,172)	10 Oct 2018
Lapse of performance rights	(1,327,910)	10 Oct 2018
Lapse of performance rights	(135,639)	7 Nov 2018
Outstanding at 31 December 2018	3,584,555	

### 4B ISSUED AND UNQUOTED OPTIONS

Unquoted options	Total Number
Issued at 1 July 2018	2,218,195
Outstanding at 31 December 2018	2,218,195

### 5 CONTINGENCIES

The Company and its legal advisors closely monitor any legal actions that may have arisen during the course of its business. The Company asserts its rights and defends claims as appropriate. Provisions are not required in respect of these matters as at the date of this report, as it is not probable that a future sacrifice of economic benefits will be required.

### 6 SUBSEQUENT EVENTS

Other than any matters disclosed within this Directors' Report there has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect the operations of the Group.

## DIRECTORS' DECLARATION

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In accordance with a resolution of the directors of Redflex Holdings Limited, I state that:

In the opinion of the directors:

- (a) The half-year financial report of the consolidated entity is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position as at 31 December 2018 and of its performance;
  - (ii) complying with Accounting Standards AASB 134 Interim Financial reporting and Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**Adam Gray**

Chairman  
Redflex Holdings Limited  
Melbourne  
25 February 2019



## **Independent auditor's review report to the members of Redflex Holdings Limited**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Redflex Holdings Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, selected other explanatory notes and the directors' declaration for Redflex Holdings Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

### ***Directors' responsibility for the half-year financial report***

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Redflex Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Redflex Holdings Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that appears to be 'JP'.

Jason Perry  
Partner

Melbourne  
25 February 2019