



**TRAFFIC TECHNOLOGIES LTD
ABN 21 080 415 407
AND CONTROLLED ENTITIES**

**PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019
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 2019	30 June 2018
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Results for announcement to the market

Continuing Operations			A\$'000
Revenues from ordinary activities (<i>item 2.1</i>)	Down	15% to	\$48,321
Earnings before interest and tax	Down	69% to	\$2,849
Profit/(loss) from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Down	79% to	\$1,263
Net profit/(loss) for the period attributable to members (<i>item 2.3</i>)	Down	79% to	\$1,263
Dividends (distributions) (<i>item 2.4</i>)	Amount per security		Franked amount per security
Interim dividend	Nil¢		Nil¢
Final dividend	Nil¢		Nil¢
Previous corresponding period:			
Interim dividend	Nil¢		Nil¢
Final dividend	Nil¢		Nil¢
Record date for determining entitlements to the dividend	N/A		

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 Managing Director's Operating and Financial Review.

1. Net Tangible Asset Backing

	As at 30 June 2019	As at 30 June 2018
Net tangible assets per share	0.3 cents	0.3 cents

2. Dividends

No dividends have been declared in respect of the year ended 30 June 2019 (2018: Nil). Total dividend Nil (2018: Nil).

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

3. Status of Audit

The unqualified, signed annual financial report is attached.

4. Corporate Information

Directors

Mr. Garry Lowrey
Mr. Con Liosatos
Mr. Mark Hardgrave

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 6
150 Collins Street
Melbourne VIC 3000

Auditors

ShineWing Australia Pty Ltd
Level 10
530 Collins Street
Melbourne VIC 3000

TRAFFIC

TECHNOLOGIES



ANNUAL REPORT

2019



TRAFFIC TECHNOLOGIES LTD
ABN 21 080 415 407
AND CONTROLLED ENTITIES

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019



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

**Traffic Technologies Ltd and Controlled Entities
Chairman's Letter**

Dear Shareholder,

I have pleasure in enclosing the Annual Report for Traffic Technologies Ltd for the financial year ended 30 June 2019.

The Group experienced slower than expected revenue and profits in the domestic market in the 2019 financial year. This was mainly due to delays in the timing of government expenditure caused by political uncertainty resulting from the federal election and state elections in Victoria and New South Wales. Trading conditions have also been affected by the weak economic outlook and the tightening of lending criteria by the banks. As a result there were delays on a number of projects which had been expected to have been completed in the 2019 financial year and which are now expected to be completed in 2019-20.

The Group is however confident about its prospects for the year ahead, underpinned by a number of significant projects involving the roll-out of our "Smart City" platform, our LED street, road and tunnel lighting installations, term maintenance contracts as well as further export sales to a range of overseas markets including the UK, South America, Middle East and Asia. The increase in multi-year term contracts with power, road authorities and municipalities is expected to underpin our earnings base in future years.

The Group's diversification program has transformed the business by de-risking its revenue through expanding into "Smart City" platforms, "Internet of Things" (IoT) systems and maintenance and installation contracts along with securing long term supply contracts across the country. The roll-out of the Group's proprietary "Smart City" software "TST" across the east coast of Australia is enabling road authorities, councils and power companies to fully utilise and maintain critical assets in real time. The Group is also continuing to benefit from the supply of LED road and street lights across the country.

The Group is currently assessing a number of acquisition opportunities, which offer the opportunity to consolidate our position in key markets, as well as a potential refinancing of the Group's debt. This will strengthen the balance sheet for the years ahead. Further announcements will be made in due course as these plans are finalised.

I would like to take this opportunity to thank shareholders for their support of the Group. Our Board and management are committed to improving shareholder value and believe that the Group is in a strong position to take advantage of the opportunities in the "Smart Cities" area with increasing focus on the use of technology to manage traffic flows and associated services. Along with my fellow Directors, I thank you for your continued support.



Garry Lowrey
Chairman



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**Traffic Technologies Ltd and Controlled Entities
Managing Director's Operating and Financial Review**

Dear Shareholder,

The Group has reported the following result for the financial year ended 30 June 2019:

	<i>Year to 30 June 2019</i>	<i>Underlying+ Year to 30 June 2018</i>	<i>Reported Year To 30 June 2018</i>
	\$'m	\$'m	\$'m
Sales revenue	48.3	56.7	56.7
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	4.3	5.0	10.2
Earnings before Interest and Tax (EBIT)	2.8	3.2	8.4
Net Profit After Tax (NPAT)	1.3	1.5	6.1

+ The result for the previous financial year included a gain on repayment of debt (\$7.9m) and a write-down of inventory (\$2.5m). To enable a comparison of the trading result, the "underlying" trading result for the previous financial year, excluding these items, has been included in the above table.

Comparing the underlying trading result for the previous financial year excluding the gain on repayment of debt and a write-down of inventory, trading revenue was \$48.3m, compared to \$56.7m in the previous financial year and EBITDA was \$4.3m, compared to underlying EBITDA of \$5.0m, whilst NPAT was \$1.3m, compared to underlying NPAT of \$1.5m in 2018.

Depreciation and amortisation expense was \$1.5m (2018 \$1.7m), mainly comprising amortisation of intangible assets. Finance costs were \$1.4m (2018: \$1.5m). Tax expense was \$0.2m (2018: \$0.8m) which comprised deferred tax movements in the year. The Group has sufficient R&D tax credits to cover the estimated tax liability for the year.

Net assets were \$21.2m at 30 June 2019 compared to \$19.9m at 30 June 2018, reflecting the contribution of net profit after tax for the year. Net debt was \$10.1m at 30 June 2019, compared to \$9.3m at 30 June 2018.

Net operating cash inflows were \$1.5m for the year (2018: inflow \$2.3m), reflecting the Group's trading operations during the year. Net investing cash outflow was \$2.3m (2018: outflow \$2.4m), including investment in R&D to further expand and develop the Group's "Smart City Software" and product portfolio. Net financing cash outflow was \$0.1m (2018: inflow \$3.6m); the previous financial year included the net repayment of debt and the proceeds of the rights issue.

The lower than expected revenue and profits in the 2019 financial year were due to delays in government expenditure caused by the federal election and state elections in Victoria and New South Wales and diversion of government expenditure to other priorities. The weak economic outlook and restrictions on bank lending have also impacted the domestic markets in which the Group operates. These and other factors contributed to delays in decisions on a number of government projects and term contracts which were expected to contribute in the 2019

financial year. A number of these contracts have now been awarded and commenced and are likely to be completed in 2019 and beyond.

The Group continues to be a major supplier of traffic signals and road signs to all states and territories in the domestic market, with the ability to service the requirements of all state road authorities and the largest road projects. The Group's diversification program has transformed the business by de-risking revenue through expanding into "Smart City" platforms with a growing annuity revenue stream from expanding SaaS activities and the increase in multi-year term supply contracts with power, road authorities and municipalities. These are expected to underpin the Group's earnings base for the years ahead.

The continued roll-out of the Group's proprietary "Smart City" software "TST" is enabling road authorities, councils and power companies to fully utilise and maintain critical assets in real time.

The Group is also continuing to benefit from the roll-out of LED street lights across the country. The Group's lighting products are well positioned for further growth, having secured approvals, long term supply contracts and orders from state and local government agencies, power companies and contractors. The Group's range of current and second generation "Smart City" ready LED road lights are significantly more energy efficient than conventional road lights and represent an attractive opportunity for state road authorities, local councils and other customers to make significant savings in their power bills and maintenance costs in a time of rising electricity prices as well as being digitally ready for IoT devices.

The Group continues to develop its export markets, including the UK, New Zealand, Asia, the Middle East and South America, with "TST", our "Smart City" platform, and the Group's traffic controllers continuing to enjoying success. Significant export orders have recently come from New Zealand, Singapore, Ecuador, China, Qatar and Mexico. The Group has also identified opportunities to supply its state-of-the-art lighting control systems and "Smart City" software to overseas markets in London, Hong Kong, Singapore and Peru.

We believe the outlook for the Group is positive taking into consideration the solid outlook in infrastructure expenditure by governments across the country and the Group's diversification program into "Smart Cities" technology with IoT, new state-of-the-art products introduced and the benefit of significant long term customer supply contracts which are expected to benefit the Group in the years ahead.

We are pleased to have your ongoing support and believe that we are well placed to achieve continued profitability in the year ahead.



Con Liosatos
Managing Director

CORPORATE INFORMATION

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

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

Directors

Mr. Garry Lowrey
Mr. Con Liosatos
Mr. Mark Hardgrave

Company Secretary & Chief Financial Officer

Mr. Peter Crafter

Registered Office & Principal Place of Business

Traffic Technologies Ltd
31 Brisbane Street
Eltham VIC 3095

Share Register

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

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

Lawyers

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

Bankers

Westpac Banking Corporation
Level 6
150 Collins Street
Melbourne VIC 3000

Auditors

ShineWing Australia
Level 10
530 Collins Street
Melbourne VIC 3000

Traffic Technologies Ltd and Controlled Entities
Financial Report for the year ended 30 June 2019
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Traffic Technologies Ltd
Directors' Report

Your Directors submit their report for the year ended 30 June 2019.

DIRECTORS

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

Name	Qualifications, Experience and Special Responsibilities
Mr. Garry P Lowrey BBus MAppFin CA	(Age 57) Independent Non-Executive Chairman. Appointed November 2015. Mr. Lowrey has over 30 years of experience in a variety of advisory, management and director roles for both private and public companies. Earlier in his career, he was a Director of Potter Warburg's Corporate Finance team, specialising in providing capital markets and mergers and acquisitions advice to small and mid-market companies. Mr. Lowrey was the Managing Director of Wilson Investment Group, an ASX listed wealth management and investment group. Mr. Lowrey served as an Executive Director of Shaw and Partners Limited and was Chairman of Oaktree Group a private retirement village developer and operator. He is presently a Non-Executive Director of Greenwich Capital Partners, a non-Executive Director of Argus Property Partners Pty Ltd and Chairman of Credit Repair Pty Ltd. Mr. Lowrey holds a Bachelor of Business degree from the University of Technology, Sydney and a Masters of Applied Finance from Macquarie University. He is a chartered accountant. Mr. Lowrey is a member of the Audit, Risk, Nomination & Remuneration and Corporate Governance committees. Mr. Lowrey has not served as a Director of any other listed companies during the three years to June 2019.
Mr. Constantinos L Liosatos MAICD	(Age 57) Managing Director. Appointed April 2003. Mr. Liosatos has over 30 years' experience in the construction industry, including over 25 years in the lighting industry specialising in research and design. He also has 15 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 was 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 Risk and Corporate Governance committees. Mr. Liosatos has not served as a Director of any other listed companies during the three years to June 2019.
Mr. Mark W Hardgrave B Com ACA MAICD	(Age 61) Independent Non-Executive Director. Appointed January 2013. Mr. Hardgrave has a corporate advisory and investment management background. He is also a Non-Executive Director of ASX listed companies Wingara AG Limited and Pental Limited and is a Director of Reclink Australia. He was co-founder and former Joint Managing Director of M&A Partners, a Melbourne based private investment and corporate finance group. Mr. Hardgrave was also previously Chief Executive Officer of Bennelong Group, which specialises in listed equities, property and private equity. Earlier in his career he worked in senior roles in a number of investment groups including Brencorp Group, Merrill Lynch and Thorney Investment Group. 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 is Chairman of the Audit, Risk, Nomination & Remuneration and Corporate Governance committees.

Traffic Technologies Ltd
Directors' Report

Skills and Experience

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

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

Company

Secretary

Mr. Peter K
Crafter

LL.B (Hons.)
MBA FCA CA
MCT FAICD
FCIS FGIA

(Age 62) Company Secretary and Chief Financial Officer. Appointed Company Secretary March 2004; appointed Chief Financial Officer October 2007.

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

INTEREST IN SHARES

Directors' interests in the shares of the Company were:

	Balance at 1 July 2018	Acquired through On-Market Trades	Other	Balance at 30 June 2019
Directors				
Mr. Garry Lowrey	7,166,667	-	-	7,166,667
Mr. Con Liosatos	31,414,832	642,091	-	32,056,923
Mr. Mark Hardgrave	3,215,054	-	-	3,215,054
Executive				
Mr. Peter Crafter	10,000	-	-	10,000
Total	41,806,553	642,091	-	42,448,644

DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2019 (2018: Nil).

OPERATING AND FINANCIAL REVIEW

Review of Operations

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

The Group specialises in the design, manufacture and installation of traffic signals, traffic controllers, pedestrian countdown timers, electronic road signs, emergency telephones, road lighting products and "Smart City" control systems. The Group also supplies a wide range of directional and regulatory traffic signs and traffic control products to road traffic authorities, municipal councils and construction companies.

The Group's proprietary "Traffic SmartCity Technology" (TST) platform, developed for the road industry, councils and power authorities, enables the integration of street lights and other traffic management equipment to a central control/management system via remote "Internet of Things" (IoT) sensors.

The Group, through its subsidiary, Aldridge Traffic Systems, has been the major participant in the traffic signals market in Australia for over 50 years where customers are mainly state road authorities or contractors building or maintaining traffic intersections for state road authorities.

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

The Group is a key supplier to the road signage market across Australia, with customers including state road authorities, local councils and construction companies. The Group's signage products are distributed from depots around Australia with manufacturing focused in Victoria, Western Australia and the Northern Territory.

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

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 or delays in Federal or State government expenditure on road infrastructure – the Group maintains regular contact with state road authorities to ensure that it can plan the resources required for major projects as far ahead as possible or allow for the deferral of major projects in times of economic slowdown.
- Adverse change in economic conditions affecting demand for the Group's products or services – the Group plans as far ahead as possible to adjust its cost base in times of economic uncertainty.
- Technological obsolescence – the Group works closely with road traffic authorities and incurs significant research and development expenditure to ensure that its products are state-of-the-art and competitive.
- Foreign exchange risk - a decrease in the Australian dollar exchange rate can affect import prices: the Group purchases components from a number of Asian countries denominated in US dollars. Conversely, an increase in the Australian dollar exchange rate can affect export opportunities: the Group sells its products to a number of countries around the world. The Group has a foreign exchange exposure through its term loan which is denominated in US dollars and a forward exchange contract has been taken out to hedge its currency exposure.
- General inflation risk, including labour costs – the Group constantly monitors its cost base and implements cost savings and operating efficiencies where possible.

Traffic Technologies Ltd
Directors' Report

- Availability of financing facilities – the Group is reliant on the continued availability of its financing facilities in order to conduct its operations. The Group ensures compliance with its facility agreements and negotiates extensions to its financing facilities when required.
- Competition – the Group maintains its competitive position by investing in research and development to ensure its products are state-of the-art and by ensuring its products are priced competitively.
- Cyber security – the Group has been addressing cyber security as part of its risk management strategy in the light of recent well-publicised breaches and increased risk in this area.
- Climate change – the Group is not significantly exposed to climate change issues unless a carbon tax is reintroduced. A significant number of the Group's products use LED technology which is energy saving and reduces greenhouse gas emissions.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER BALANCE DATE

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SHARE OPTIONS

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

During the financial year ended 30 June 2019, the Group paid premiums of \$88,737 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.

Traffic Technologies Ltd
Directors' Report

REMUNERATION REPORT (AUDITED)

This Remuneration Report for the financial year ended 30 June 2019 outlines non-executive director and executive remuneration arrangements for Traffic Technologies Ltd (**Company**) in accordance with the requirements of the *Corporations Act 2001 (Cth)* (**Corporations Act**) and its Regulations.

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

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

The disclosures in this Remuneration Report have been audited.

1. Persons covered by this Remuneration Report

This Remuneration Report applies to the following persons.

Non-executive directors

Mr. Garry Lowrey Independent Non-executive Chairman

Mr. Mark Hardgrave Independent Non-executive Director

Executives

Mr. Con Liosatos Managing Director

Mr. Peter Crafter Chief Financial Officer and Company Secretary

2. Overview of the Company's remuneration policy

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

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

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

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

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

3. Details of executive remuneration structure

3.1 Objective

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

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

3.2 Approach to setting remuneration

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

(a) Fixed remuneration

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

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

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

(b) Variable remuneration

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

Traffic Technologies Ltd
Directors' Report

3.3 The current structure of executive remuneration

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

(a) Combination of fixed and variable remuneration

Remuneration	Components	Purpose	Link to Performance
Total Fixed Remuneration (TFR)	Comprises base salary, non-monetary benefits, and superannuation contributions.	To provide competitive fixed remuneration taking account of the role, market, experience and performance.	Company and individual performance are assessed during the annual remuneration review.
Short term incentives (STIs)	The Company operates an STI at the discretion of the Board which is accessed based on the Company's performance above budget plan. Bonuses are paid in cash.	To reward executives for their contribution to achievement of Company outcomes according to specified KPI's.	Linked to achievement of operational targets and KPI's. Where actual financial performance exceeds budget plan by up to 100%, the Company makes payment of an STI bonus up to 20%.
Long term incentives (LTIs)	The Company operates an LTI at the discretion of the Board. Options are allotted in accordance with our LTI plan.	To reward executives for their contribution to the creation of shareholder value over the longer term.	<p>The grant by the Company of the options will be dependent on the share price performance of the Company relative to the ASX 300 small ordinaries index. If the Company's share price performance exceeds the ASX 300 small ordinaries index for the relevant period, the LTI may be awarded for that financial year.</p> <p>Subsequent to being granted, the LTI options will only vest if the executive does not resign or is not terminated for cause within a two year period (after the end of the relevant financial year in which the options are granted). The exercise price of the options will be equivalent to the Company's share price on the last day of the relevant financial year.</p>

Traffic Technologies Ltd
Directors' Report

(b) Performance hurdles

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

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

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

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

STIs

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

LTIs

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

- (iii) What is the performance period?

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

Traffic Technologies Ltd
Directors' Report

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

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

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

(c) Clawback

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

4. Details of Non-Executive remuneration structure

4.1 Objective

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

4.2 Approach to setting remuneration

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

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. The notice convening a general meeting at which it is proposed to seek approval to increase that maximum aggregate sum must specify the proposed new maximum aggregate sum and the amount of the proposed increase. The latest determination was at the AGM held in 2005 when shareholders approved an aggregate remuneration of \$400,000 per year. The amount of remuneration paid to non-executive directors is reviewed annually against remuneration paid to non-executive directors of comparable companies. The board did not use external consultants during the financial year ended 30 June 2019.

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

4.3 Non-executive Director Agreements

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

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

5. Performance outcomes

5.1 Executives

- (a) Managing Director – Mr. Con Liosatos

The Managing Director, Mr. Liosatos, is employed under a rolling employment contract. A summary of Mr. Liosatos' entitlements for the financial year ended 30 June 2019 is as follows:

Traffic Technologies Ltd
Directors' Report

- TFR for the financial year ended 30 June 2019 was \$529,777.
- No STI was awarded to Mr. Liosatos for the 2019 financial year.
- No LTI was awarded to Mr. Liosatos for the 2019 financial year.
- Employment may be terminated by the giving, by either party, of twelve months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from any monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.
- Further details of the executives' remuneration for the financial years ended 30 June 2018 and 30 June 2019 are included in the tables below.

(b) Chief Financial Officer – Mr. Peter Crafter

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

- TFR for the financial year ended 30 June 2019 was \$288,024.
- No STI was awarded to Mr. Crafter for the 2019 financial year.
- No LTI was awarded to Mr. Crafter for the 2019 financial year.
- Employment may be terminated by the giving, by either party, of twelve months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from any monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.
- Further details of the executives' remuneration for the financial years ended 30 June 2018 and 30 June 2019 are set out in the tables below.

(c) Performance against targets

- No STI's were awarded for the 2019 financial year.
- No LTI's were awarded for the 2019 financial year.

5.2 Non-executive Directors

Details of non-executive Directors' remuneration for the financial years ended 30 June 2018 and 30 June 2019 are set out in the tables below. The Company considers the non-executive Directors' remuneration to be reasonable taking into account their duties, responsibilities, market, experience and performance.

5.3 Company Performance and Shareholder Returns

	2019	2018	2017	2016	2015
Net profit/(loss) \$'000)	\$1,263	\$6,072	\$1,011	(\$22,250)	\$420
EPS (cents)	0.26	1.88	0.37	(8.07)	0.15
Share price (cents)	2.4	3.3	3.6	2.6	3.9

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

Traffic Technologies Ltd
Directors' Report

TABLE 1: REMUNERATION OF KEY MANAGEMENT PERSONNEL – YEAR TO 30 JUNE 2018

	Short-term benefits			Post-employment benefits	Termination Benefits	Long-term benefits	Share based payments	Total	
	Salary & fees \$	Non-monetary \$	Cash Bonus \$	Superannuation \$		Long service leave \$	Options \$	\$	% performance related
Year to 30 June 2018									
Key Management Personnel									
<i>Non-executive Directors</i>									
Mr. Garry Lowrey	108,674	-	-	10,324	-	-	-	118,998	-
Mr. Mark Hardgrave	57,750	-	-	5,486	-	-	-	63,236	-
Sub-total non-executive Directors	166,424	-	-	15,810	-	-	-	182,234	-
<i>Executives</i>									
Mr. Con Liosatos	492,962	13,187	94,605	25,000	-	10,614	-	636,368	15%
Mr. Peter Crafter	247,921	20,644	24,792	23,552	-	(20,557)	-	296,352	8%
	740,883	33,831	119,397	48,552	-	(9,943)	-	932,720	13%
Total	907,307	33,831	119,397	64,362	-	(9,943)	-	1,114,954	11%

Traffic Technologies Ltd
Directors' Report

TABLE 2: REMUNERATION OF KEY MANAGEMENT PERSONNEL – YEAR TO 30 JUNE 2019

	Short-term benefits			Post-employment benefits	Termination Benefits	Long-term benefits	Share based payments	Total	
	Salary & fees \$	Non-monetary \$	Cash Bonus \$	Superannuation \$		Long service leave \$	Options \$	\$	% performance related
Year to 30 June 2019									
Key Management Personnel									
<i>Non-executive Directors</i>									
Mr. Garry Lowrey	108,674	-	-	10,324	-	-	-	118,998	-
Mr. Mark Hardgrave	57,750	-	-	5,486	-	-	-	63,236	-
Sub-total non-executive Directors	166,424	-	-	15,810	-	-	-	182,234	-
<i>Executives</i>									
Mr. Con Liosatos	492,962	11,815	-	25,000	-	14,176	-	543,953	-
Mr. Peter Crafter	247,921	16,551	-	23,552	-	15,032	-	303,056	-
	740,883	28,366	-	48,552	-	29,208	-	847,009	-
Total	907,307	28,366	-	64,362	-	29,208	-	1,029,243	-

END OF AUDITED REMUNERATION REPORT

Traffic Technologies Ltd
Directors' Report

DIRECTORS' MEETINGS

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

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

BOARD COMMITTEES

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

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

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2018/191. The Company is an entity to which the Instrument applies.

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

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

Signed in accordance with a resolution of the Directors.



Mr. Garry Lowrey
Independent Non-Executive Chairman
28 August 2019
Melbourne

**Auditor's Independence Declaration under Section 307C of the Corporations Act
2001 to the Directors of Traffic Technologies Limited and Controlled Entities**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been:

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

ShineWing Australia

ShineWing Australia
Chartered Accountants

Rami Eltchelebi

Rami Eltchelebi
Partner

Melbourne, 28 August 2019

Traffic Technologies Ltd
Corporate Governance Statement

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

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

The Corporate Governance Statement is accurate and up to date as at 28 August 2019 and has been approved by the Board.

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

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

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

Traffic Technologies Ltd and Controlled Entities
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2019

	Note	Consolidated 2019 \$'000	2018 \$'000
Revenue	2	48,321	56,670
Other income	2	125	8,003
Changes in inventories of finished goods and work in progress		2,433	(3,046)
Raw materials and consumables used		(28,986)	(32,481)
Employee benefits expense	3	(13,661)	(15,134)
Occupancy costs		(1,907)	(1,905)
Advertising and marketing expense		(123)	(296)
Other expenses	3	(1,879)	(1,651)
Depreciation, amortisation and impairment expense		(1,474)	(1,731)
Earnings before interest and tax (EBIT)		2,849	8,429
Finance costs	3	(1,380)	(1,548)
Net profit for the year before income tax		1,469	6,881
Income tax expense	4	(206)	(809)
Net profit for the year		1,263	6,072
Other comprehensive income		-	-
Total comprehensive income for the year		1,263	6,072
Earnings per share		Cents	Cents
- Basic (cents per share)	5	0.26	1.88
- Diluted (cents per share)	5	0.26	1.88

The accompanying notes form part of these financial statements.

Traffic Technologies Ltd and Controlled Entities
Consolidated Statement of Financial Position
As at 30 June 2019

	Note	Consolidated 2019 \$'000	2018 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	17	3,107	4,044
Trade and other receivables	6	8,803	10,766
Inventories	7	12,597	10,164
Derivatives	12	251	619
Total Current Assets		24,758	25,593
Non-Current Assets			
Property, plant and equipment	8	1,224	1,253
Goodwill	9	10,554	10,554
Intangible assets	9	8,929	7,956
Total Non-Current Assets		20,707	19,763
TOTAL ASSETS		45,465	45,356
LIABILITIES			
Current Liabilities			
Trade and other payables	10	7,341	8,730
Interest bearing loans and borrowings	11	142	172
Provisions	13	2,685	2,570
Deferred tax liability	4	861	659
Total Current Liabilities		11,029	12,131
Non-Current Liabilities			
Interest bearing loans and borrowings	11	13,073	13,128
Provisions	13	203	200
Total Non-Current Liabilities		13,276	13,328
TOTAL LIABILITIES		24,305	25,459
NET ASSETS		21,160	19,897
EQUITY			
Contributed equity	14	54,755	54,755
Accumulated losses		(33,595)	(34,858)
TOTAL EQUITY		21,160	19,897

The accompanying notes form part of these financial statements.

Traffic Technologies Ltd and Controlled Entities
Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

	Note	Contributed Equity \$'000	Share based payments Reserve \$'000	Accumulated Losses \$'000	Total \$'000
CONSOLIDATED					
At 1 July 2017		49,029	1,000	(41,930)	8,099
Profit for the year		-	-	6,072	6,072
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	6,072	6,072
Transactions with owners in their capacity as owners:					
Rights issue	14	6,200	-	-	6,200
Share issue costs	14	(474)	-	-	(474)
Transfer share-based payment reserve	14	-	(1,000)	1,000	-
At 30 June 2018		54,755	-	(34,858)	19,897
Profit for the year		-	-	1,263	1,263
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	1,263	1,263
At 30 June 2019		54,755	-	(33,595)	21,160

The accompanying notes form part of these financial statements.

Traffic Technologies Ltd and Controlled Entities
Consolidated Statement of Cash Flows
For the year ended 30 June 2019

	Note	Consolidated 2019 Inflows / (Outflows) \$'000	2018 Inflows / (Outflows) \$'000
Cash flows from operating activities			
Receipts from customers		54,659	61,569
Payments to suppliers and employees		(51,950)	(57,748)
Interest received		48	-
Interest paid		(1,267)	(1,552)
Income tax paid		(4)	(5)
Net cash from operating activities	17	1,486	2,264
Cash flows from investing activities			
Proceeds from sale of plant and equipment		5	-
Payment of development costs		(1,886)	(1,826)
Purchase of property, plant and equipment		(180)	(330)
Purchase of intangible assets		(273)	(289)
Net cash from investing activities		(2,334)	(2,445)
Cash flows from financing activities			
Proceeds from borrowings		-	13,788
Repayment of borrowings	17	(89)	(15,663)
Payment of borrowing costs		-	(286)
Proceeds from share issue		-	6,200
Payments for share issue costs		-	(474)
Net cash from financing activities		(89)	3,565
Net (decrease)/increase in cash and cash equivalents		(937)	3,384
Cash and cash equivalents at beginning of the financial year		4,044	660
Cash and cash equivalents at end of the financial year		3,107	4,044

The accompanying notes form part of these financial statements.

Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

The financial report of Traffic Technologies Ltd (the Company) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the Directors on 28 August 2019. The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

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

Rounding

The amounts contained in the financial report have been rounded to the nearest thousand dollars (\$'000) (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2018/191. The Company is an entity to which the Instrument applies.

b) New Accounting Standards for Application in Future Periods

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

- **AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019).**
AASB 16 will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.
The main changes introduced by the new Standard include:
 - recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
 - depreciation of right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
 - variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
 - by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
 - additional disclosure requirements.

Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transition to AASB 16

The Group plans to adopt AASB 16 retrospectively to each prior reporting period presented. The Group will elect to apply the standard to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying AASB 117 and AASB Interpretation 4. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value. During 2019, the Group has performed a detailed impact assessment of AASB 16. In summary the impact of AASB 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease) as at 30 June 2019:

	\$'000
<i>Assets</i>	
Property, plant and equipment	2,509
Deferred tax assets	59
<i>Liabilities</i>	
Lease liabilities	(2,707)
<i>Net impact on equity</i>	<u>(139)</u>

Impact on the statement of profit or loss (increase/(decrease) for 2019:

	\$'000
Depreciation expense	(744)
Operating lease expense (included in occupancy costs)	978
Operating profit	234
Finance costs	(329)
Income tax expense	29
<i>Profit for the year</i>	<u>(66)</u>

Due to the adoption of AASB 16, the Group's profit will reduce due to an increase in depreciation and interest expense. This is due to the change in the accounting for expenses of leases that were classified as operating leases under AASB 117.

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

Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation

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

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

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 the statement of comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

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

d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and other factors it believes to be reasonable under the circumstances. Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Significant accounting judgements

Impairment testing of non-financial assets

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.

Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

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, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation.

Significant accounting estimates and assumptions

Long service leave provision

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

Allowance for impairment loss on receivables

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

Estimation of useful lives of assets

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

Maintenance warranties

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

Finance costs

In assessing the amount of finance costs charged in the year, the Group has taken into account the increase in interest costs over the term of the loan facility provided to the Group. It is the Group's intention to refinance its loan facility when suitable alternative loan facilities can be obtained. Finance costs have been calculated on the assumption that the Group's loan facility will be refinanced by January 2020.

Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

2. REVENUE

The Group has applied, for the first time, AASB 15 Revenue from Contracts with Customers. The nature and effect of these changes are discussed below.

AASB 15 Revenue from Contracts with Customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of goods

Revenue from sale of goods is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expected to be entitled in exchange for those goods.

Rendering of services

Revenue is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (performance obligations satisfied over time). When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest income

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

Finance and other income

Finance and other income is recognised when the right to receive the income is established.

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 January 2018 which has resulted in changes in accounting policies and the analysis of possible adjustments to the amounts recognised in the financial reports. AASB 15 applies to all revenue arising from contracts with customers, unless those contracts are in the 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.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

In accordance with the transition provisions in AASB 15, the Group has elected to adopt the new rules retrospectively. The Group has carried out an assessment of its customer contracts. Having reviewed the nature of the Group's customer contracts, this has not resulted in any adjustments to the prior year comparatives.

Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

2. REVENUE (continued)

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Revenue		
Sale of goods	<u>48,321</u>	56,670
Other income		
Gain on repayment of debt (note 11)	-	7,883
Net profit on disposal of fixed assets	1	-
Net gain on derivatives held for trading	862	619
Net exchange loss on foreign currency borrowings	(881)	(623)
Other income	<u>143</u>	124
Total other income	<u>125</u>	8,003

3. EXPENSES

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Employee related expenses		
Wages and salaries	10,272	10,198
Superannuation (defined contribution)	1,012	982
Other employee benefits expense	<u>2,377</u>	3,954
	<u>13,661</u>	15,134
Other expenses		
Administrative costs	1,679	1,455
Public company costs	<u>200</u>	196
	<u>1,879</u>	1,651
Finance costs		
Amortisation of capitalised transaction costs	113	24
Bank loans and overdrafts	-	1,148
Term loan	1,263	257
Lease interest	4	24
Other	<u>-</u>	95
Total finance costs	<u>1,380</u>	1,548
Research and development costs		
Research and development costs charged directly to cost of sales in profit or loss	<u>35</u>	69

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4. INCOME TAX

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current income tax expense charged to profit or loss is the tax payable on taxable income. Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Income Tax Expense		
Current tax	4	5
Deferred tax - origination and reversal of temporary differences	202	804
Aggregate income tax expense	<u>206</u>	<u>809</u>

Reconciliation of income tax expense and tax at the statutory tax rate

Accounting profit before income tax	<u>1,469</u>	6,881
Tax at the statutory rate of 30% (2018: 30%)	441	2,064
Permanent difference	90	-
Impact of debt restructure	-	(1,020)
Non-refundable foreign tax offset	4	5
Recoupment of R&D tax offset	(391)	(240)
Prior year under/over	62	-
Aggregate income tax expense	<u>206</u>	<u>809</u>
Weighted average effective tax rate	14%	12%

Deferred tax

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

Deferred tax relates to the following

	Statement of Financial Position		Statement of Profit or Loss Income	
	Consolidated 2019 \$'000	Consolidated 2018 \$'000	Consolidated 2019 \$'000	Consolidated 2018 \$'000
<i>Temporary differences</i>				
Intangible assets	(2,113)	(1,824)	(289)	(970)
Plant and equipment	(189)	(376)	187	(376)
Inventory	60	(60)	120	(60)
Employee provisions	936	902	34	104
Warranty provisions	12	12	-	-
Credit notes	14	7	7	(5)
Doubtful debts	9	11	(2)	11
Foreign exchange	3	1	2	-
Other capital expenditure	381	587	(206)	470
Other accruals and provisions	26	81	(55)	22
Deferred tax asset/(liability)	<u>(861)</u>	<u>(659)</u>	<u>(202)</u>	<u>(804)</u>

Traffic Technologies Ltd and Controlled Entities
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4. INCOME TAX (continued)

Tax losses

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
The following tax losses have not been recognised as a deferred tax asset:		
Tax losses – revenue	-	-
Tax losses - capital	-	-
Carried forward tax offsets	1,096	1,726
Total deferred tax assets	1,096	1,726

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

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.

5. EARNINGS PER SHARE

Basic earnings per share is calculated as net profit/loss attributable to members of the parent entity 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 divided by the weighted average number of ordinary shares and dilutive potential ordinary shares. The following reflects the income and share data used in the basic and diluted earnings per share computations:

Earnings used in calculating earnings per share

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
<i>For basic and diluted earnings per share:</i>		
Net profit attributable to ordinary equity holders of the parent	1,263	6,072

Weighted average number of shares

	Consolidated 2019 Thousands	Consolidated 2018 Thousands
Weighted average number of ordinary shares used in calculating basic earnings per share	482,225	482,225
Weighted average number of ordinary shares adjusted for the effect of dilution	482,225	482,225

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 2019 (2018: 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.

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6. TRADE AND OTHER RECEIVABLES

Trade receivables, which generally have 30 day terms, are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, less an allowance for any uncollectible amounts. Trade receivables are non-interest bearing. Collectability of trade receivables is reviewed on an ongoing basis. Amounts over 60 days are deemed overdue. Credit is stopped until full payment is made. Debts that are known to be uncollectible are written off when identified. An allowance for impairment loss is recognised 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.

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Trade receivables	7,591	8,778
Allowance for impairment loss	(30)	(35)
	7,561	8,743
Prepayments	494	951
Other receivables	748	1,072
	8,803	10,766

Allowance for impairment loss – trade receivables

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. 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.

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Ageing of trade receivables not impaired:		
1-30 days	4,270	5,686
31-60 days	2,482	1,615
61 days and over	809	1,442
	7,561	8,743

Movement in provision for impairment loss:

Balance at the beginning of the year	35	9
Charge for the year	120	64
Amounts recovered during the year	(6)	(10)
Allowance no longer required	(38)	-
Amounts written off as uncollectible	(81)	(28)
Balance at the end of the year	30	35

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7. 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.

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Raw materials	4,299	3,785
Work in progress	205	157
Finished goods	8,093	6,222
	<u>12,597</u>	<u>10,164</u>

Inventory write-downs recognised as an expense totalled \$Nil (2018: \$2,520,000). The inventory write-down was included in the statement of comprehensive income in changes in inventories of finished goods and work in progress.

8. PROPERTY, PLANT AND EQUIPMENT

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

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

	2019	2018
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

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 ADM Capital as disclosed in note 11.

Traffic Technologies Ltd and Controlled Entities
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8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Carrying values		
<i>Plant and equipment:</i>		
At cost	4,990	4,896
Accumulated depreciation	(4,411)	(4,324)
Total plant and equipment	579	572
<i>Plant and equipment under lease:</i>		
At cost	445	445
Accumulated depreciation	(401)	(348)
Total plant and equipment	44	97
<i>Office furniture and fittings</i>		
At cost	1,167	1,102
Accumulated depreciation	(1,077)	(1,045)
Total office furniture and fittings	90	57
<i>Office furniture and fittings under lease</i>		
At cost	137	137
Accumulated depreciation	(137)	(136)
Total office furniture and fittings	-	1
<i>Motor vehicles</i>		
At cost	332	349
Accumulated depreciation	(295)	(302)
Total motor vehicles	37	47
<i>Motor vehicles under lease</i>		
At cost	685	633
Accumulated depreciation	(409)	(374)
Total motor vehicles under lease	276	259
<i>Buildings</i>		
At cost	208	208
Accumulated depreciation	(117)	(108)
Total land and buildings	91	100
<i>Leasehold improvements</i>		
At cost	683	667
Accumulated depreciation	(576)	(547)
Total leasehold improvements	107	120
<i>Total property, plant and equipment</i>		
At cost	8,647	8,437
Accumulated depreciation	(7,423)	(7,184)
Total net book value	1,224	1,253

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8. PROPERTY, PLANT AND EQUIPMENT (continued)

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
At 1 July 2018 net book value	572	97	57	1	47	259	100	120	1,253
Additions	97	-	64	-	-	84	-	15	260
Disposals	-	-	-	-	-	(4)	-	-	(4)
Depreciation expense	(90)	(53)	(31)	(1)	(10)	(63)	(9)	(28)	(285)
At 30 June 2019 net book value	579	44	90	-	37	276	91	107	1,224
At 1 July 2017 net book value	499	153	68	15	5	300	108	117	1,265
Additions	190	-	20	-	47	84	-	37	378
Disposals	-	-	-	-	-	(47)	-	-	(47)
Depreciation expense	(117)	(56)	(31)	(14)	(5)	(78)	(8)	(34)	(343)
At 30 June 2018 net book value	572	97	57	1	47	259	100	120	1,253

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9. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

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

Intangible assets

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

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

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 (2018: 5 years). The amortisation is recognised in the statement of comprehensive income in the line item 'depreciation, amortisation and impairment expense'.

Software costs

Software costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Purchased software development is assessed to have a finite life and is amortised over a period of 1-4 years (2018: 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 (2018: 3-10 years).

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9. GOODWILL AND INTANGIBLE ASSETS (continued)

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Carrying values		
<i>Development costs</i>		
At cost	18,088	16,202
Accumulated amortisation	(8,852)	(7,945)
Accumulated impairment	(400)	(400)
	8,836	7,857
<i>Software costs</i>		
At cost	1,870	1,632
Accumulated amortisation	(1,837)	(1,589)
	33	43
<i>Patents and trademarks</i>		
At cost	520	486
Accumulated amortisation	(460)	(430)
	60	56
<i>Goodwill</i>		
At cost	33,042	33,042
Accumulated impairment	(22,488)	(22,488)
	10,554	10,554
<i>Total intangibles</i>		
At cost	53,520	51,362
Accumulated amortisation	(34,037)	(32,852)
Total net book value	19,483	18,510

Reconciliation of carrying amounts at the beginning and end of period

Consolidated	Development Costs \$'000	Software Costs \$'000	Patents and Trademarks \$'000	Goodwill \$'000	Total \$'000
At 1 July 2018 net book value	7,857	43	56	10,554	18,510
Additions	1,886	238	34	-	2,158
Amortisation	(907)	(248)	(30)	-	(1,185)
At 30 June 2019 net book value	8,836	33	60	10,554	19,483
At 1 July 2017 net book value	7,183	13	33	10,554	17,783
Additions	1,826	241	48	-	2,115
Amortisation	(1,152)	(211)	(25)	-	(1,388)
At 30 June 2018 net book value	7,857	43	56	10,554	18,510

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9. GOODWILL AND INTANGIBLE ASSETS (continued)

Impairment testing

Impairment testing of goodwill

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

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

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

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

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

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

Impairment losses recognised for goodwill are not subsequently reversed.

Impairment testing of non-financial assets other than goodwill

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

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

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.

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9. GOODWILL AND INTANGIBLE ASSETS (continued)

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

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

(ii) Key assumptions used in value in use calculations for the Signals and Controllers cash-generating units at 30 June 2019 and 30 June 2018

The recoverable amounts of the Signals and Controllers cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets prepared by management covering a five year period. The carrying value of the Signals cash-generating unit at 30 June 2019 was \$18.8m and the recoverable amount was \$18.9m. The carrying value of the Controllers cash-generating unit at 30 June 2019 was \$1.5m and the recoverable amount was \$6.4m.

Management has budgeted for a 30% increase in revenue in the year ending 30 June 2020, based on long term supply contracts. This will also bring budgeted revenue to a similar level achieved in the financial year ended 30 June 2018. Cash flows beyond the budget period have been extrapolated using an expected growth rate of 5% for the Signals and Controllers cash-generating units (2018: 5%).

The Group believes that the growth rate selected is justified based on expected growth in demand over the next five years in line with government projections. The growth rate used to extrapolate the cash flows for periods beyond the five year period is 3% (2018: 3%).

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

The pre-tax discount rate applied to the cash flow projections is 14.8% (2018: 13.0%), which is the Group's WACC.

The key assumptions used in the value in use calculations represent management's best estimates at 30 June 2019. Management has considered the sensitivity of the value in use calculations to changes in assumptions. The value in use calculation is sensitive to revenue changes. If revenue for the Signals cash-generating unit is below budget by \$0.35m (1%) the carrying value of the unit will equal its recoverable amount, if all other assumptions are unchanged.

(iii) Impairment testing

The Group performed impairment testing at 30 June 2019 and 30 June 2018. There was no impairment of goodwill allocated to either the Signals or Controllers cash-generating unit at those dates. An impairment provision of \$20m was recorded against the value of goodwill in the Signals cash-generating unit as at 30 June 2016.

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

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Signals	30,535	30,535
Less: Impairment provision	(20,000)	(20,000)
	10,535	10,535
Controllers	19	19
Total	10,554	10,554

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10. 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. Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
<i>Current</i>		
Trade creditors	6,038	5,346
Sundry creditors and accruals	1,303	3,134
Deferred income	-	250
Current trade and other payables	7,341	8,730

11. 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.

	Nominal interest rate	Year of maturity	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Current borrowings				
Lease liabilities	1.3% - 8.2%	2019-2020	142	172
			142	172
Non-current borrowings				
Term facility (secured)	15%	2021	12,931	13,010
Lease liabilities	1.3% - 8.2%	2020-2022	142	118
			13,073	13,128

Reconciliation of term facility

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Term facility balance comprises:		
Principal loan amount payable	12,465	12,500
Exchange loss	262	623
Capitalised interest	204	-
Less: capitalised transaction costs	-	(113)
	12,931	13,010

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11. INTEREST BEARING LOANS AND BORROWINGS (continued)

Terms and conditions relating to the above financial instruments

- (i) *Term Facility - The Company completed a debt restructure on 18 April 2018 under which a loan was provided by an investment holding entity established by, and funds managed by Asia Debt Management Hong Kong Limited (ADM Capital) for the US dollar equivalent to A\$12.5 million.*
- (ii) The loan has been revalued based on the spot rate as at 30 June 2019. The loan balance includes a foreign exchange loss and capitalised interest accrued to 30 June 2019.
- (iii) The Company has taken out a six month derivative financial instrument expiring on 18 October 2019 to hedge the currency exposure on the loan (see note 12). This replaced a previous derivative financial instrument which matured on 18 April 2018.
- (iv) Under the loan facility a contingent liability of USD \$557,750 exists should the counter-parties to the loan agreement and related derivative financial instrument fail to fulfil their repayment commitments. As it is anticipated that all parties will fulfil their repayment obligations no amount has been recognised as a liability in the financial report.
- (v) The loan is secured by a fixed and floating charge over the Company's assets.
- (vi) *The loan is for a term of 3 years, expiring on 18 April 2021. The Company can seek the financier's approval to extend the term for up to 12 months.*
- (vii) The loan has a commercial interest rate of 7% per annum, with an additional 8% per annum capitalised into the loan amount outstanding with effect from 18 April 2019. There is a further increase in the interest rate from 18 April 2020, assuming that the Company has not exercised its right to repay or re-finance the loan.
- (viii) In assessing the effective interest rate on the loan, management has assumed an effective interest rate of 15%. Further information regarding the effective interest rate risk and foreign currency exposure of borrowings is set out in note 15.
- (ix) During the current and prior financial year, there were no defaults or breaches on the loan.
- (x) The carrying amount of the Group's current and non-current borrowings approximates fair value.
- (xi) The Company has a bank guarantee facility with Westpac Bank secured by a cash deposit.

	Consolidated	Consolidated
	2019	2018
	\$'000	\$'000
Financing facilities available		
<i>Total facilities at reporting date</i>		
Term facility (ADM Capital)	12,931	12,500
Bank guarantee facility (Westpac)	265	265
	13,196	12,765
<i>Facilities used at reporting date</i>		
Term facility (ADM Capital)	12,931	12,500
Bank guarantee facility (Westpac)	133	265
	13,064	12,765
<i>Facilities unused at reporting date</i>		
Term facility (ADM Capital)	-	-
Bank guarantee facility (Westpac)	132	-
	132	-

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12. DERIVATIVES

Derivatives are only used for economic hedging purposes and not speculative instruments.

Current assets	2019	2018
	\$'000	\$'000
Derivative financial asset for foreign currency forward contracts	251	619

(i) Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting year.

(ii) Fair value measurements

The Group uses a three level hierarchy to measure the fair value of financial instruments. Balances are classified into a level based on the lowest level of input that is significant to the entire fair value measurement.

- Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.
- Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Derivatives are measured at fair value are based on level 2 inputs. The fair value of foreign currency forward contracts is determined using forward exchange rates at balance sheet date.

The fair value of derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

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13. PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Provision for Warranties

A provision has been recognised for expected warranty claims on products supplied by the Group, based on current sales levels, current information available about past returns and repairs and the warranty period for products sold. The provision for warranty claims represents the present value of the Directors' best estimate of the future outflow of economic benefits that will be required under warranties offered for products supplied by the Group. Based on past experience, the Group does not expect the full balance of the current provision to be settled within 12 months. However, as the Group does not have an unconditional right of deferral, the balance is presented as current.

Analysis of Provisions

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Current		
Employee benefits	2,645	2,531
Warranty provision	40	39
	2,685	2,570
Non-current		
Employee benefits	203	200

Traffic Technologies Ltd and Controlled Entities
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14. CONTRIBUTED EQUITY

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Ordinary shares	<u>54,755</u>	54,755
	No. Of Shares '000	\$'000
Ordinary shares		
At 1 July 2017	275,557	49,029
Rights issue	206,668	6,200
Share issue costs	-	(474)
At 30 June 2018	<u>482,225</u>	<u>54,755</u>
 At 30 June 2019	 <u>482,225</u>	 <u>54,755</u>

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.

Gearing ratio

The Directors review the capital structure on a monthly basis. As a part of this review the Board considers the cost of capital and risks associated with each class of capital. The Group will balance its overall capital structure through new share issues and the redemption of existing debt, as market conditions allow. The Group is not subject to any externally imposed capital requirements. The gearing ratios at 30 June 2019 and 2018 were as follows:

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Total borrowings	13,215	13,300
Cash and cash equivalents	<u>(3,107)</u>	<u>(4,044)</u>
Net debt	10,108	9,256
Equity	<u>21,160</u>	<u>19,897</u>
Total capital	<u>31,268</u>	<u>29,153</u>
Gearing ratio	32%	32%

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15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has applied, for the first time AASB 9 Financial Instruments. The nature and effect of these changes are discussed below.

AASB 9 Financial Instruments

The Group measures financial instruments such as derivatives, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in note 12.

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018.

The Group has adopted AASB 9 from 1 January 2018 which has resulted in changes to accounting policies and the analysis for possible adjustments to amounts recognised in the interim condensed consolidated financial statements.

The Group has assessed which business models apply to the financial instruments held by the Group and has classified them into the appropriate AASB 9 categories. On adoption of AASB 9, the Group classified financial assets and liabilities as subsequently measured at either amortised cost or fair value, depending on the business model for those assets and on the asset's contractual cash flow characteristics.

Traffic Technologies Ltd and Controlled Entities
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15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group has carried out an assessment of trade and other receivables. The Group has determined there is no material impact of expected credit losses nor has this resulted in any adjustment to prior year comparatives.

There was no impact on the statement of comprehensive income or the statement of changes in equity on adoption of AASB 9 in relation to classification and measurement of financial assets and financial liabilities.

The following table summarises the impact on the classification and measurement of the Group's financial instruments:

Presented in statement of financial position	Financial asset/financial liability	AASB 139	AASB 9	Reported \$'000	Restated \$'000
Cash and cash equivalents	Bank deposits	Cash at cost	Cash at cost	No change	No change
Trade and other receivables	Loans and receivables	Loans and receivables	Amortised cost	No change	No change
Trade and other payables	Payables	Amortised cost	Amortised cost	No change	No change
Interest bearing liabilities	Debt at amortised cost	Amortised cost	Amortised cost	No change	No change
Derivative	Forward exchange contract	Fair value through profit or loss	Fair value through profit or loss	No change	No change

Financial instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

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

Traffic Technologies Ltd and Controlled Entities
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15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial Liabilities

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

Derecognition

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

Financial risk management objectives and policies

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

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

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

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

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

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

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 (2018: fair values).

Risk exposures and responses

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk.

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15. 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. At balance date the Group had the following financial assets and liabilities exposed to market interest rate risk:

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Financial assets		
Cash and cash equivalents	3,107	4,044
Financial liabilities		
Financial liabilities at amortised cost	(12,931)	(13,010)
Net exposure	(9,824)	(8,966)

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. At 30 June 2019 100% of the Group's borrowings were at a fixed rate of interest (2018: 100%). Details of the Group's debt are disclosed in note 11.

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.

Sensitivity analysis

At 30 June, the Group was not exposed to sensitivity caused by changes in market interest rates because 100% of its borrowings were at a fixed rate of interest. Potential interest rate exposure could arise however if the Group were to refinance its borrowings at prevailing market rates of interest.

Foreign exchange risk

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. 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.

The Group's borrowing facility is denominated in US dollars. To manage the risk associated with the exposure of this balance to exchange rate fluctuations the Group entered into a foreign currency forward contract. This foreign currency forward contract is accounted for as held for trading with gains (losses) recognised in the statement of comprehensive income.

Traffic Technologies Ltd and Controlled Entities
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15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	2019	2018
	AUD	AUD
	\$'000	\$'000
Loan (USD exposure)	12,931	13,010
Forward exchange contracts (USD exposure)	251	619

During the financial year, the following foreign-exchange related amounts were recognised in profit or loss:

	2019	2018
	AUD	AUD
	\$'000	\$'000
<i>Amounts recognised in profit or loss</i>		
Net foreign exchange gain on foreign currency derivatives not qualifying as hedges included in other income/other expense	862	619
Exchange losses on foreign currency borrowing included in other income	(881)	(623)
Total net foreign exchange gains/(losses) recognised in profit before income tax for the period	(19)	(4)

Sensitivity analysis

The Group is primarily exposed to changes in the US dollar exchange rate. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US dollar-denominated financial instruments is illustrated in the table below.

	2019	2018
	USD	USD
	\$'000	\$'000
<i>Impact on post tax profit</i>		
US/\$exchange rate – increase 5%	(994)	(861)
US/\$exchange rate – decrease 5%	861	757

The Group has taken out a forward exchange contract to hedge its currency exposure (see note 12).

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The Group does not hold any credit derivatives to offset its credit exposure.

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

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15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of current working capital, term loans and lease liabilities.

Maturity analysis of financial liabilities

Year ended 30 June 2019	≤ 6 months \$'000	6-12 months \$'000	1 – 5 years \$'000	> 5 years \$'000	Total \$'000
Payables	7,341	-	-	-	7,341
Interest bearing loans & borrowings	142	-	13,073	-	13,215
Bank guarantees	-	-	133	-	133
Total financial liabilities	7,483	-	13,206	-	20,689

Year ended 30 June 2018	≤ 6 months \$'000	6-12 months \$'000	1 – 5 years \$'000	> 5 years \$'000	Total \$'000
Payables	8,730	-	-	-	8,730
Interest bearing loans & borrowings	172	-	13,128	-	13,300
Bank guarantees	-	-	265	-	265
Total financial liabilities	8,902	-	13,393	-	22,295

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16. EXPENDITURE COMMITMENTS

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

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.

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.

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

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Finance leases and hire purchase		
Less than one year	154	146
Later than one year but less than five years	153	167
	307	313
Less future finance charges	(23)	(23)
Total finance lease and hire purchase liabilities	284	290
 Reconciled to:		
Current liability	142	172
Non-current liability	142	118
	284	290
 Operating leases – properties		
Less than one year	1,364	1,042
Later than one year but less than five years	1,950	1,480
	3,314	2,522

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17. NOTES TO THE STATEMENT OF CASH FLOWS

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.

Reconciliation of cash	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Cash at bank and in hand	<u>3,107</u>	<u>4,044</u>

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

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

	Consolidated 2019 \$'000	Consolidated 2018 \$'000
Net profit	1,263	6,072
Adjustments for:		
Depreciation, amortisation and impairment of non-current assets	1,474	1,731
Gain on repayment of debt	-	(7,883)
Loss/(profit) on sale of fixed assets	(1)	-
Foreign exchange gain	(54)	(234)
Amortisation of capitalised finance fees	113	24
Doubtful debts expense/(written off)	(5)	26
Inventories obsolescence expense/(benefit)	-	2,520
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	1,968	(557)
(Increase)/decrease in inventories	(2,433)	525
Increase/(decrease) in trade and other payables	(1,158)	(1,048)
(Increase)/decrease in deferred tax assets	202	804
Increase/(decrease) in provisions	117	284
Net cash provided by operating activities	<u>1,486</u>	<u>2,264</u>

Non cash financing and investing activities

During the year the Group acquired property, plant and equipment with an aggregate value of \$83,705 (2018: \$84,249) by means of finance leases. These acquisitions are not reflected in the Statement of Cash Flows.

Reconciliation of liabilities in financing activities

	1 July 2018 \$'000	Cash flows \$'000	Fair value changes \$'000	Other \$'000	30 June 2019 \$'000
Lease liabilities	(290)	89	-	(83)	(284)
Borrowings	(13,010)	-	396	(317)	(12,931)
Derivative asset	619	-	(368)	-	251
Total liabilities from financing activities	(12,681)	89	28	(400)	(12,964)

Traffic Technologies Ltd and Controlled Entities
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18. CLAIMS AND CONTINGENCIES

Guarantees

As detailed in note 19, the Company is party to a deed of cross guarantee with its wholly-owned subsidiaries. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee. No liability is expected to arise. The deed of cross guarantee will continue to operate indefinitely. As detailed in note 11, the Company is party to a finance facility agreement with ADM Capital 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.

19. RELATED PARTY DISCLOSURES

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

(i) Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered Key Management Personnel. For details of disclosures relating to Key Management Personnel, refer to note 22.

(ii) Subsidiary entities

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

Name of Subsidiary	Principal Place of Business	Principal Activity	Ownership	Interest
			Held by 2019 %	the Group 2018 %
Traffic Technologies Signal & Hardware Division Pty Ltd	Australia	Non-trading	100	100
Traffic Technologies Traffic Management Division Pty Ltd	Australia	Non-trading	100	100
De Neefe Pty Ltd	Australia	Manufacture signs	100	100
Traffic Technologies Traffic Hire Pty Ltd	Australia	Non-trading	100	100
Sunny Sign Company Pty Ltd	Australia	Manufacture signs	100	100
Pro-Tech Traffic Management Pty Ltd	Australia	Non-trading	100	100
KJ Aldridge Investments Pty Ltd	Australia	Non-trading	100	100
Aldridge Traffic Group Pty Ltd	Australia	Non-trading	100	100
Excelsior Diecasting Pty Limited	Australia	Non-trading	100	100
Aldridge Traffic Systems Pty Ltd	Australia	Manufacture signals, lights etc.	100	100
Aldridge Plastics Pty Ltd	Australia	Non-trading	100	100
Quick Turn Circuits Pty Ltd	Australia	Manufacture controllers	100	100
Traffic Technologies International Limited	Hong Kong	Non-trading	100	100
Telensa Pty Ltd	Australia	Non-trading	100	100
Telensa Australia Pty Ltd	Australia	Non-trading	100	100

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19. RELATED PARTY DISCLOSURES (continued)

(iii) Entities subject to Individual Order

Pursuant to the Individual Order granted by ASIC under subsection 340(1) of the *Corporations Act 2001*, relief has been granted to the subsidiary companies from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports. The relief granted under the Individual Order is equivalent to the advantage of the relief offered by ASIC Corporations (Wholly owned Companies) Instrument 2018/785. As a condition of the Individual Order, Traffic Technologies Ltd and its subsidiary entities (the “Closed Group”) entered into a Deed of Cross Guarantee on 28 June 2007. The effect of the deed is that Traffic Technologies Ltd has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Traffic Technologies Ltd is wound up or if it does not meet its obligation under the terms of overdrafts, loans or other liabilities subject to the guarantee.

The consolidated statement of profit or loss and statement of financial position of the closed group is equivalent to the Group’s statement of profit or loss and statement of financial position.

b) Transactions with Directors or Director-related entities

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

20. SUBSEQUENT EVENTS

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

21. AUDITOR’S REMUNERATION

Amounts received or due and receivable by:

	Consolidated 2019 \$	Consolidated 2018 \$
Audit or review of the financial report of the entity and any other entity in the Group		
- ShineWing Australia	81,500	79,500

Traffic Technologies Ltd and Controlled Entities
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22. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Compensation of Key Management Personnel

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

	Consolidated	
	2019	2018
	\$	\$
<i>Compensation by Category:</i>		
<i>Key Management Personnel</i>		
Short-term employee benefits	935,673	1,060,535
Post-employment benefits	64,362	64,362
Other long-term benefits	29,208	(9,943)
	1,029,243	1,114,954

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 2019 or at the date of this report (2018: 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.

23. OPERATING SEGMENTS

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

Major customers

The Group has a number of customers to which it provides both products and services. The Group supplies a number of government agencies that combined accounted for 9% of sales (2018: 13%). Revenue from the largest non-government customer accounted for 11% (2018: 12%) of sales.

Geographical information

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

Revenue by geographic location:

	Consolidated	Consolidated
	2019	2018
	\$'000	\$'000
Australia	41,923	50,292
Overseas	6,398	6,378
Total	48,321	56,670

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

Traffic Technologies Ltd and Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

24. PARENT ENTITY INFORMATION

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

	2019	2018
	\$'000	\$'000
Current assets	6,429	7,756
Total assets	54,545	55,475
Current liabilities	57,048	55,127
Total liabilities	69,790	68,146
Issued capital	54,755	54,755
Retained earnings	(70,000)	(67,426)
Total shareholders' equity	(15,245)	(12,671)
Profit/(loss) for the year	(2,574)	4,365
Total comprehensive income	(2,574)	4,365
Guarantees entered into by the parent entity^	133	265

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

Traffic Technologies Ltd
Directors' Declaration
For the year ended 30 June 2019

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The consolidated financial statements and notes of Traffic Technologies Ltd are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Australian 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 2019 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. 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.
4. The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

The members of the Closed Group identified in note 19 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 19.

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

On behalf of the Board



Garry Lowrey
Chairman

Melbourne
28 August 2019

ASX Additional Information
As at 12 August 2019

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 12 August 2019.

a) Distribution of Shareholdings

	Ordinary Shares	
	Number of Holders	Number of Shares
1-1,000	149	20,201
1,001-5,000	34	92,004
5,001-10,000	46	384,832
10,001-100,000	370	17,601,892
100,001 and over	281	464,125,766
	880	482,224,695
Holdings less than a marketable parcel	327	2,264,214

b) Twenty Largest Shareholders

	Name	No. of Shares	% Held
1	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	60,861,510	12.62%
2	RSAM INVESTMENTS PTY LTD <RM INVESTMENT A/C>	41,060,719	8.51%
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	23,104,362	4.79%
4	MR LAMBROU LIOSATOU *	19,844,761	4.12%
5	BROWNLOW PTY LTD	18,000,000	3.73%
6	BANNABY INVESTMENTS PTY LTD <BANNABY SUPER FUND A/C>	17,606,063	3.65%
7	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	15,661,266	3.25%
8	PETHOL (VIC) PTY LTD <MACDY NO 5 SUPER FUND A/C>	14,137,739	2.93%
9	QUOTIDIAN NO 2 PTY LTD	12,500,000	2.59%
10	LIOSATOS SUPERANNUATION PTY LTD <LIOSATOS S/F A/C> *	12,212,162	2.53%
11	GP MANAGEMENT P/L <G&R S/F A/C>	12,000,150	2.49%
12	CLAPSY PTY LTD <BARON SUPER FUND A/C>	11,848,360	2.46%
13	MR ROBERT SCOTT ANTHONY MINNEY	10,644,630	2.21%
14	MR GARRY PATRICK LOWREY *	7,166,667	1.49%
15	MR PAUL DAVID NEATE	6,000,000	1.24%
16	DMX CAPITAL PARTNERS LIMITED	5,500,000	1.14%
17	TARAKITA PTY LTD <JONES PROPERTY A/C>	5,461,905	1.13%
18	NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	5,327,151	1.10%
19	HYDRONOMEES PTY LTD <HYDRO-CHEM SUPER FUND A/C>	5,195,377	1.08%
20	DE LA HAYE SUPER FUND PTY LTD <DE LA HAYE SUPER FUND A/C>	5,000,000	1.04%
	Total	309,132,822	64.11%

* Associated with Directors.

c) Substantial Shareholders (greater than 5%)

Holder Name	Ordinary Shares	
	Number	%
Mr. Con Liosatos	32,056,923	6.65
Mr. Robert Minney	51,705,349	10.70

d) Voting Rights

All ordinary shares carry one vote per share without restriction.

e) Ordinary shares subject to voluntary escrow restrictions

None.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRAFFIC TECHNOLOGIES LIMITED AND CONTROLLED ENTITIES

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Traffic Technologies Limited ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

Area of focus	How our audit addressed the areas of focus
<p>Impairment of Goodwill and other non-financial assets (Refer to Note 9)</p> <p>The Group holds \$10.6m of Goodwill acquired through previous business combinations.</p> <p>Australian Accounting Standards require the Group to perform impairment testing in relation to non-financial assets where impairment indicators are identified from internal and external sources of information.</p> <p>In addition, the Directors are required to perform annual impairment testing for Goodwill regardless of whether indicators exist.</p> <p>Non-financial assets of the Group including Goodwill are allocated to appropriate Cash Generating Units (CGUs) for impairment testing. The Directors' impairment assessment process is highly judgemental and is based on assumptions including:</p> <ul style="list-style-type: none"> • Identifying the Group's CGUs; • Cash flow forecasts; • Growth rates including terminal growth rate; and • The Discount rate. <p>These assumptions are affected by expected future growth and profitability of product lines (including new products) and the continuing profitability of the core business.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Enquired with management on the basis of assumptions applied in the value in use model to obtain an understanding of the key variables impacting on each CGU; • Obtained and evaluated the assumptions and methodology applied in the Directors' value in use calculation including sales forecast, market share, operating costs, capital expenditure and corporate overheads; • Performed sensitivity analysis on the key assumptions and variables to determine various outcomes of the value in use model in assessing whether certain CGUs are impaired; and • Reviewed the adequacy of the Group's disclosures about these assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of assets.
<p>Effective interest rate (Refer to note 11)</p> <p>The Group entered into a debt instrument which includes an interest rate which steps up over the term.</p> <p>Australian Accounting Standards require the Group to recognise interest costs under the effective interest method based upon the Directors' estimate of expected cash flows.</p> <p>The Group's finance costs are sensitive to the expected cash flows as estimated by the Directors.</p> <p>Judgement is required with respect to the expected cash-flows in determining the effective interest rate.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Reviewed the Directors' assessment of the expected cash flows in calculating the effective interest rate including supporting evidence to substantiate timing of expected cash flows; and • Recalculated the closing liability under the effective interest method.
<p>Capitalised Development Costs (Refer to Note 9)</p> <p>During the year the Group had capitalised development costs relating to traffic product development projects.</p> <p>For internally generated intangible assets, the Australian Accounting Standards require certain conditions to be satisfied prior to development costs being capitalised.</p> <p>This assessment can be complex as it requires the Directors and management to determine whether the criteria for capitalisation have addressed.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Reviewed management's internal documentation and policy in respect of development costs; and • Performed detailed testing in relation to the development costs balance of \$8.8m at 30 June 2019

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

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if

such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 12 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Traffic Technologies Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

A stylized blue ink signature that reads "ShineWing Australia".

ShineWing Australia
Chartered Accountants

A stylized blue ink signature, likely belonging to Rami Eltchelebi.

Rami Eltchelebi
Partner
Melbourne, 28 August 2019





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