

## Managing Director's Address to Shareholders

24 November 2015, Melbourne:

I am pleased to report that the result for the 2015 financial year was an improvement on 2014 with revenue at \$46.2m, an increase of 15% compared to the previous financial year with Earnings Before Interest and Tax (EBIT) increasing by over 200% to \$2.4m, after taking into account one-off costs of \$0.7m associated with a restructuring program. Net Profit After Tax (NPAT) was the biggest mover with a significant turnaround by more than \$1.6m, delivering a profit of \$420,000 compared to a loss in the previous financial year.

The improvement in the 2015 results included a contribution from the New South Wales traffic signals upgrade project, a full year's contribution from Quick Turn Circuits Pty Ltd (QTC), a number of export programs and the initial benefits from our restructure program.

Of particular significance was the increase in our export program which grew by 90% compared to the previous financial year, through our subsidiaries Aldridge Traffic Systems and QTC. A number of marketing initiatives came to fruition with sales in several overseas countries and in particular the UK, Hong Kong, China, Singapore, Saudi Arabia and South America. Our restructure program has included cost savings and a full review of production processes. QTC was fully integrated during its first full year with the Group and QTC's product and services are now offered together with Aldridge Traffic Systems products to our domestic and overseas customers.

The Group's Signage business continues to be one of the main suppliers of road signs to the Australian market. The Signage business again contributed to profits in the 2015 financial year, benefitting from a continued focus by management and staff on the supply chain, cost control, factory efficiency, quality, service and reliability. These attributes have made the Signage business the industry benchmark in a highly competitive market. This is evidenced by the recent award of a new contract estimated to be worth approximately \$6-7m for the supply of a wide range of road signs and associated hardware to Brisbane City Council over the next five years

Over the past year we have commercialised the development of our LED road light which is significantly more energy efficient than conventional road lights and represents an attractive opportunity for State road authorities, local councils and other customers to make significant savings in their power bills in a time of rising electricity prices and is also a significant growth opportunity for the Group.

Our LED road lights have now been approved in various States and our first sales have been achieved in South Australia and Victoria. We have supplied over 2,500 LED road lights to date including the recent upgrade of the Monash Freeway and the Calder Freeway, including on and off ramps. This project represents a significant milestone for the Group and the State of Victoria and constitutes the first major "V" category LED road light installation in this country. With approximately 2.25 million road lights in Australia, the roll-out of LED road lights offers an exciting growth opportunity for the Group in the years ahead.

Our research and development programs are of paramount importance in ensuring that we continue to be market leaders in a global traffic industry which demands state-of-the-art and energy efficient products. Our Australian designed and built LED "V" category road light is the latest in a series of innovative products which we have developed to meet our customers' needs and has already become the benchmark across a number of road authorities and power utility companies across the country.

Commercialisation of our "P" category LED street light, which represents over 60% of Australian street lights, can now start, having achieved approvals this year with various government authorities. Our "P" category LED street light was approved after an intensive 18 month research and development and testing program and expectations are that sales will be achieved alongside the larger "V" category road light.

The Group has also developed a range of new products in the Intelligent Transport Systems (ITS) sector, including intelligent school speed zone signs and a series of electronic signs which now have been commercialised with major sales in Victoria and Western Australia. From a standing start this sector has quickly gained momentum and has delivered positive results in the 2015 year.

The acquisition of QTC in late 2013 has enabled the Group to expand its product range with the addition of traffic controllers. The acquisition of QTC has also opened potential new markets overseas for the Group's traffic signals across the 27 countries that use the SCATS system. The Group has identified and captured some significant export opportunities in the 2015 financial year and has also benefitted from QTC's positive contribution to EBIT. QTC has become the benchmark in a number of cities around the world as it continues to drive reliability, product excellence and value for key stakeholders where road safety is paramount.

Following the recent completion of the New South Wales traffic signal upgrade, there are a number of further significant traffic signal upgrade opportunities expected in Australia in the years ahead with approximately 20% of the market not yet converted to LED. It is also expected that LED traffic signals that were installed more than a decade ago are slowly coming to the end of their useful lives and will need to be replaced or upgraded to the next generation traffic signal.

Our core traffic signals business remained solid for the 2015 year despite the absence of major government expenditure on road infrastructure projects and programs. Sales were achieved across the country for our pedestrian countdown timers and ITS products with a significant contribution from our range of electronic speed zone signs in Western Australia and Victoria. Although we have recently been appointed "Tier 1" supplier to Brisbane City Council for the supply of traffic signals for a minimum 36 month period, we will only start to receive the full benefit of this contract in the current financial year.

The Group is continuing to develop its presence in the UK market with the first sales also achieved in Scotland. Whilst Transport for London is in the early stages of upgrading its traffic signals to LED technology, the Company had an increase in sales of over 200% and a corresponding contribution to EBIT from the UK market. We see the UK, in particular the upgrade by Transport for London of 6,000 intersections over 8 years, as a large potential opportunity for the Group with a number of further innovative programs being developed and implemented for the 2016 financial year ranging from intelligent traffic signals, controllers, emergency phone systems and LED road lights.



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The 2015 financial year finished with an improvement in net operating cash flow as a result of the higher revenue for the year, whilst gearing was marginally reduced down to 42%. It remains however a key objective for the Company to reduce gearing to a level more in line with market expectations and to reduce finance costs.

Although our 2016 financial year began well, the Company has recently been adversely affected generally by weaker economic conditions and a slowdown in government infrastructure expenditure (which has delayed some projects). This, together with the significant fall in the Australian dollar (which has led to higher cost of imported components), has impacted on our margins and is likely to affect our first half FY2016 result.

The nature of our business is that contract revenue is lumpy, reflects seasonal factors and is often affected by matters outside our control (such as economic activity and infrastructure spending by government authorities). Our current expectation is that there will be a net loss after tax for the first half of the current financial year of around \$900,000, compared to a net loss of \$200,000 in the corresponding period last year. We believe our second half result should benefit from contracts recently awarded to the Group and from our "profit improvement program" involving cost savings, manufacturing efficiencies and other structural improvements.

Finally, I would like to take this opportunity to thank our shareholders for their continued support along with all the staff and management of the Company.