Traffic Technologies Limited

Leading the consolidation

Wilson HTM INVESTMENT GROUP

21 June 2007

$0.41

BUY

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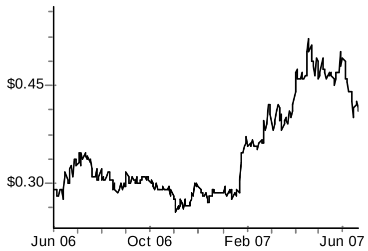
Price Performance



Security/Capital Details

ASX Code	TTI
Market Cap	$63 M
Issued Shares	149.6 M
Avg Mth T'over	3.21 M
12 Mth High – Low	$0.52 - $0.26

Key Data/Ratios – FY 2007

EBITDA / Sales	6.0%
EBIT / Sales	3.4%
Net Debt / Equity	98.4%
Interest Cover	2.1 x
ROE	5.2%
EPS Growth	201.3%
PEG Ratio	0.16 x
NTA / Share	$ -0.08
12 Mth Price Target	$ 0.51

Recommendation

Traffic Technologies provides traffic-related products and services. The business has been established by acquisitions over the past 2.5 years (3 core + 13 bolt-on) supported by credible organic growth. The company is leading consolidation of the fragmented sector. Industry trends are supportive with increased private and public investment flagged for roads and associated infrastructure (e,g. up to $5.6B pa Fed spend via Auslink 2). Traffic Technologies offers the largest range of traffic-related products and has the widest geographic spread in Australia. We initiate coverage with a BUY recommendation and a share price target of $0.51.

Key Points

- **All about traffic.** Traffic Technologies Limited ("Traffic Technologies") offers a suite of traffic-related solutions with applications in the road maintenance and construction industries. The company's five divisions serve as a one-stop-shop with a range of products and services including traffic lights, traffic management, signs, hardware, equipment installation and maintenance and line marking.
- **Smart acquisitions.** Following the initial acquisition of Traffic Services Australia, the company re-listed on the ASX in January 2005. Traffic Technologies has since achieved impressive growth supported by the acquisition of 15 businesses and credible organic expansion. We believe existing operations represent a strong foundation for further growth.
- **Consolidating and growing sector.** The market for traffic solutions is very fragmented, dominated by small private operators who typically specialise in regional-based services or single products. Traffic Technologies offers the largest range of traffic-related products and has the widest geographic spread in Australia. Market trends are supportive with increased private and public investment flagged for roads and associated infrastructure (e.g. spend from Federal program Auslink 2 up to $5.6B pa). Tighter industry regulations are making it more difficult for smaller operators to compete which also bodes well for Traffic Technologies who has internal licensing and training programs plus the capital to support compliance.
- **Growth via leverage and further acquisitions.** We believe primary internal drivers of growth will relate to (1) organic growth via further leverage of the common customer base and (2) acquisitions to support product range expansion and wider geographic coverage.
- **Projecting material earnings growth.** The company reported a maiden profit in 1H07 with NPAT of $1.1M. We are projecting a material lift in earnings supported by contributions from newly acquired businesses (including Aldridge) and organic growth. We believe margin expansion will be supported by integration of more recent purchases and the realisation of synergy benefits. We are forecasting NPAT of $6.1M in FY08.
- **Valuation.** Our share price target of **$0.51** is based on 10 times our FY09 forecast for basic reported EPS of 5.1 cents. We initiate coverage of Traffic Technologies with a **Buy** recommendation.

BUY: Total return +10% or more over a 12 month period HOLD: Total return expected to be between +10% to -10% over a 12-month period
SELL: Total return expected to be -10% or more over a 12 month period TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

June	NPAT (Rep) $M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2006a	-0.9	-1.5	36.5	-26.8	-6.1	41.2	0.0	0.0	0
2007e	1.5	1.6	201.3	26.5	-10.2	18.5	0.0	0.0	0
2008e	6.1	4.2	172.3	9.7	7.0	6.7	1.8	4.3	100
2009e	8.1	5.4	28.0	7.6	7.8	5.4	2.5	6.1	100

1. Executive Summary

1.1. Recommendation and Share Price Target

We initiate coverage on Traffic Technologies with a BUY recommendation. Our price target of 51 cents represents a 24% premium to the current share price of 41.5 cents.

Our price target is based on a price to earnings ratio of 10 times our FY09 EPS forecast of 5.1 cents.

Potential catalysts for earnings and valuation upgrades may relate to:

- Further acquisitions including significant purchases (e.g. Aldridge, May 2007) or bolt-on businesses (e.g. Clearsonics, January 2007; Road Work Traffic Management and All Points Traffic Management, June 2007)
- Material new contract wins (e.g. RTA road sign maintenance contract, up to $3M pa, April 2007)
- Confirmation of progress with integration of recently purchased businesses
- Evidence of positive earnings growth with improved margins.

1.2. Earnings Summary

The table below summarises our earning forecasts for Traffic Technologies.

Table 1: Earnings summary

		FY06a	FY07e	FY08e	FY09e
Group Revenue	$M	57.5	88.5	126.3	140.1
EBIT Contributions					
Signals (incl Aldridge)	$M	0.0	1.4	6.0	7.3
Traffic Management	$M	2.0	2.7	4.2	6.3
Signage	$M	-0.5	1.6	3.2	3.4
Intelligent Traffic Systems	$M	-0.2	0.0	0.3	0.1
Asset Management	$M	0.1	0.1	0.9	0.3
Unallocated	$M	-1.8	-2.8	-3.2	-3.4
Group EBIT	**$M**	**-0.5**	**3.0**	**11.3**	**14.0**
growth	*%*		n/a	279%	23%
NPAT	**$M**	**-0.9**	**1.5**	**6.1**	**8.1**
growth	*%*		n/a	307%	33%
Basic EPS (reported)	**c**	**-1.5**	**1.3**	**3.9**	**5.1**
growth	*%*		n/a	200%	31%
DPS	**c**	**0**	**0**	**1.8**	**2.5**

Source: Company data, WHTM

1.3. Investment Highlights

- **Consolidation play.** Traffic Technologies has a first mover advantage in a consolidating sector. Competitors are mainly small, private operators who typically offer regional-based services or a single product. Traffic Technologies has been strategic in its acquisitions, which have included both profitable and "turnaround" businesses. The company has proven it is capable of integrating diverse operations and there is potential for the realisation of further synergy benefits.
- **Growing sector.** We expect Traffic Technologies to benefit from sector growth supported by increased private and public spend on roads and infrastructure (e.g. spend from Federal program Auslink 2 up to $5.6B pa).
- **Market share expansion.** We expect Traffic Technologies to leverage its strong customer relationships to drive market share growth. Key customers of the more mature Traffic Management and Signage divisions are potential customers for the company's newer divisions. We expect market share expansion to also be supported by strategic acquisitions e.g. Aldridge (acquired in May 2007) has an estimated market share of 80% of the traffic

signal sector. In addition, Traffic Technologies is helping to drive the industry's safety and compliance standards higher; tighter regulations are creating barriers to entry for new competitors and forcing smaller players out of play.

- **Good suite of products and services.** Traffic Technologies has the largest range of traffic-related products and the widest geographic spread for traffic management services in Australia. This makes it a logical choice for large contractors and road authorities looking for a supplier capable of servicing large-scale or national projects. These types of customers are typically "sticky" or loyal. There are significant opportunities for Traffic Technologies to leverage its common customer base to cross sell products and services from its diversified divisions.
- **Strong earnings outlook.** We are forecasting NPAT to increase from \$1.5M in FY07 to \$6.1M in FY08 and \$8.1M in FY09. Our projections for basic reported EPS are 1.3 cents in FY07, 3.9 cents in FY08 and 5.1 cents in FY09. Our forecasts are based on organic growth as well as synergy benefits associated with integrating more recent acquisitions. We believe that further acquisitions are likely however our projections are based on contributions from acquisitions that have already been announced.

2. Background

Traffic Technologies Limited ("Traffic Technologies") offers a suite of traffic-related solutions with applications in the road maintenance and construction industries.

The company was established in 2000 with a single product; the Smart Traffic Light. As part of its strategy to establish a suite of traffic-related products and services, Traffic Technologies acquired Traffic Services Australia (TSA) in late 2004. Brisbane-based TSA was the largest traffic management company in Australia at the time. Traffic Technologies re-listed on the ASX in January 2005.

Over the past two years Traffic Technologies has achieved impressive growth through the acquisition of 15 additional businesses supported by credible organic expansion. The company reported a maiden profit in 1H07 with group NPAT of \$1.1M from revenues of \$43.5M. We believe the existing business represents a strong foundation for further growth.

The market for traffic solutions is very fragmented and is dominated by small private operators who specialise in a regional-based service or a single product. Traffic Technologies offers the largest range of traffic-related products and has the widest geographic spread in Australia. The company is effectively a one-stop-shop for traffic-related solutions making it an attractive vendor for the State road authorities and national contractors.

Joint Managing Directors Con Scrinis (via Astra Glen) and Con Liosatos (via Contelite) own 3.1% and 3.2% of issued shares respectively. Other members of the Board own a combined share of 2.2% of issued shares.

Private equity firm, Equity Partners has a "relevant interest" over 5.8M (4.6%) of the ordinary shares owned by Con Scrinis and Con Liosatos. The interest relates to control over the sale, transfer and voting rights of the shares in certain takeover circumstances. Equity Partners also owns 24M preference shares (issued at 25c) which are convertible to into fully paid ordinary shares (at the option of Equity Partners) as well as \$2M in convertible notes (issued at 26c).

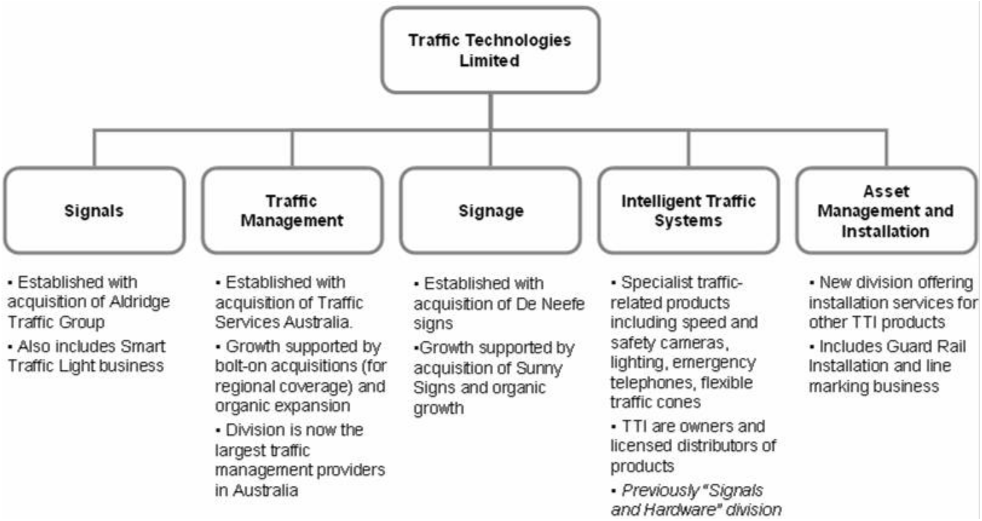
3. Business Model

The current structure of Traffic Technologies was established via the purchase of a number of large businesses as well as smaller bolt-on acquisitions.

The company operates 5 main divisions which serve to offer a spectrum of traffic-related solutions. Operating a full-service traffic business enables Traffic Technologies to leverage its common customer base to cross-sell products and services. Key customers include road authorities and contractors.

Traffic Technologies has a more professional approach than most operators and is driving the demand for higher standards across the sector. The company has invested in systems and processes which support high levels of customer service. Relationships and client satisfaction are critical for securing repeat business.

Chart 1: Business Model - One Stop Shop



Source: company data, WHTM

Appendix 1 Business Divisions (on page 10) gives a more detailed overview of the company's 5 divisions.

The tables below summarise our forecasts for divisional contributions.

Table 2: Revenue by Division

($M)	FY06a	1H07a	FY07e	FY08e	FY09e
Signals	0.0	0.0	7.5	26.4	30.2
Traffic Management	33.1	20.9	42.0	46.0	50.9
Signage	23.7	16.8	28.6	35.6	39.8
Intelligent Traffic Systems	0.7	2.2	4.3	7.5	8.0
Asset Management	0.5	6.8	13.1	17.8	19.0
Total Revenue	**58.1**	**46.7**	**95.5**	**133.3**	**147.9**
Intercompany sales	-0.6	-3.3	-7.0	-7.0	-7.8
Group Revenue	**57.5**	**43.5**	**88.5**	**126.3**	**140.1**

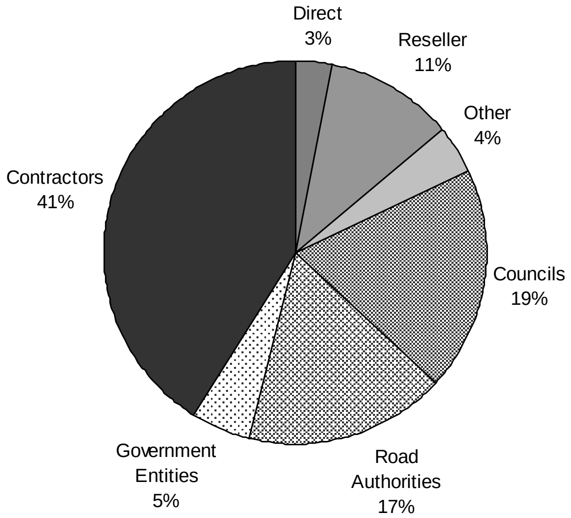
Source: Company data, WHTM

Table 3: EBIT by Division

($M)	FY06a	1H07a	FY07e	FY08e	FY09e
Signals	0.0	0.0	1.4	6.0	7.3
Traffic Management	2.0	2.2	2.7	4.2	6.3
Signage	-0.5	1.2	1.6	3.2	3.4
Intelligent Traffic Systems	-0.2	0.0	0.0	0.3	0.1
Asset Management	0.1	-0.1	0.1	0.9	0.3
Total EBIT	**1.3**	**3.4**	**5.8**	**14.5**	**17.4**
Unallocated	-1.8	-1.7	-2.8	-3.2	-3.4
Group EBIT	**-0.5**	**1.7**	**3.0**	**11.3**	**14.0**

Source: Company data, WHTM

Chart 2: Sales by Customer Segment (annualised)



Source: Company data

4. Industry

The market for traffic-related products and services is very fragmented and is principally comprised of small privately-owned companies.

Competitors tend to be focused on a limited product range or offer services for a specific regional area. We understand that Traffic Technologies has the largest range of offerings in Australia with the widest geographical coverage.

Key customers include road authorities and contractors i.e. Downer EDI, Leighton. The large national contractors typically drive investment allocations given their management role on most road projects.

Trends in the industry are positive with increasing funding for road infrastructure. Local, State and Federal Government spend is material. For example the Federal Government has confirmed it will continue its National Land and Transport Plan with AusLink 2 to follow Auslink 1, which committed $15B over the five years to 2009. The Australian Government will invest $22.3B under Auslink 2 over 4 years from 2009 to 2013.

There are also number of material non-government projects in train across Australia including EastLink in Melbourne (about $2.5B) and the North-South Bypass tunnel in Brisbane (about $2.0B).

Regulations are getting stricter, particularly in the traffic management sector, which is driving demand for higher levels of quality. Traffic Technologies is well positioned to comply with its in-house training and licensing for controllers and access to capital. The tougher rules may potentially make it more difficult for the smaller, regional operators to compete and provide the required services to the larger contractors or transport authorities.

State Government policies mandating the use of LED traffic lights are also positive for Traffic Technologies. There are currently about 11,000 intersections with traffic signals in Australia of which about 20% have been retrofitted to LED. It is estimated that more than 80% of existing traffic lights will be retrofitted with LED technology by 2015. Aldridge (acquired by Traffic Technologies in May 2007) is the only company in Australia to have all of the required State and Federal approvals for its LED traffic signals and associated products.

LED traffic lights use less power than traditional incandescent or halogen lights and have lower electricity and running costs. LED extends the life of traffic lights by up to 10 years and hence require less frequent maintenance and have lower operating costs.

5. Growth

We view Traffic Technologies' existing suite of businesses as a credible base for further growth. We expect key drivers of future growth to include:

- **Acquisitions.** Traffic Technologies has a good track record for making smart acquisitions. We believe the company will continue purchasing businesses that extend its product offering and geographical coverage. Management has proven it can turn around underperforming businesses (e.g. TSA was in administration and De Neefe signs was experiencing trading issues). We expect Traffic Technologies will pay around 3-4x EBIT for profitable businesses and potentially up to 6x EBIT for strategic or superior businesses. The company has a good record of negotiating reasonable prices for distressed companies.
- **Integration of previous acquisitions**. We expect the company will achieve higher margins across all of its divisions as it continues to bed down more recent acquisitions and realise synergy benefits. Benefits of scale should also start to impact group earnings as operational efficiencies are improved and as the company enjoys greater levels of bargaining power with suppliers.
- **Aldridge.** The purchase of Aldridge was significant for Traffic Technologies. The business owns market-leading technology and has material market share of the traffic light sector in Australia (estimated at 80%). The barriers to entry are high given the requirements for State and Federally-approved traffic lights and associated products.
- **Leverage common customer base.** We expect Traffic Technologies will continue to achieve organic growth by cross-selling existing products and services to its customer base.
- **Market growth.** Traffic Technologies is likely to benefit from flagged growth in public and private investment in road infrastructure. Mandates for LED traffic lights are also positive.
- **Market share growth.** Traffic Technologies is one of the few operators able to service large scale projects and national requirements of larger customers. We expect this capacity and the company's high levels of customer service to support market share expansion across all sectors.
- **International expansion.** The company has flagged its intention to review opportunities to sell its products and services to overseas customers. Our forecasts only consider domestic growth.

6. Risks

There are a number of risks facing Traffic Technologies.

- **Occupational Health and Safety risk.** Safety risk exists given the nature of traffic management services whereby traffic controllers direct vehicles on sometimes busy roads. Australia has a low record of injury and fatality however the risk remains. The regulations around licensing and training for traffic controllers are getting more strict; Traffic Technologies is well placed to comply with its internal licensing and training programs.
- **Acquisition risk.** Given its acquisitive nature, there is risk that Traffic Technologies may overpay or buy a substandard business. However management has a good track record for making smart acquisitions.
- **Integration and execution risk.** The company has acquired 16 businesses over the past 3 years. There is some risk that management will not be able to integrate purchases effectively however early evidence is supportive.

7. Outlook

We believe the outlook for Traffic Technologies is positive. Industry trends are supportive with increased spending flagged for roads and associated infrastructure. Tighter restrictions are making it more difficult for the smaller companies to compete which also bodes well for Traffic Technologies.

We believe further acquisitions are likely. Management has demonstrated it is capable of turning underperforming businesses around as evidenced by positive earnings contributions from Traffic Services Australia (traffic management) and De Neefe (signs) businesses. The company also has a credible track of integrating businesses and realising synergy benefits. We expect further margin expansion in FY08 and FY09 as the more recent acquisitions are bedded down.

The company has achieved respectable organic growth particularly from its more mature divisions. For example, Traffic Management division reported organic growth of 19% in FY06 and 28% in 1H07. We expect that additional leverage of the common customer base to cross sell products and services will support further organic growth across all divisions.

Its national coverage and ability to service large-scale projects give the company an advantage over regional competitors. High levels of customer service should help to secure recurring business from existing customers.

8. Forecasts

Our forecasts are based on earnings from existing businesses and acquisitions that have already been announced. We believe that further purchases are likely however timing, size and earnings contributions of potential acquisitions are difficult to project.

We are forecasting group revenue to increase from $43.5M in 1H07 to $57.5M for FY07 and $88.5M in FY08. The growth is supported by contribution from the Aldridge business (acquired in May 2007) as well as increased contributions from the four existing divisions. Traffic Technologies typically records a stronger second half given Government spend is skewed towards the end of the financial year. Although this may be more moderated in future periods given the overall increased public spending via the Auslink programs.

The company reported positive EBIT for the first time in 1H07 of $1.7M. Our EBIT forecasts consider growth to $3.0M in FY07 and $11.3M in FY08. The key driver behind the growth is integration of recently acquired businesses resulting in higher margins; 3.4% in FY07 growing to 9.0% in FY08. The FY08 result will include a full period contribution from Aldridge.

We are forecasting minimal tax in FY07 due to carried tax losses. Our projections consider a 30% tax rate from FY08. We are forecasting NPAT of $1.5M in FY07 and $6.1M in FY08.

Traffic Technologies reported FY06 EPS of (1.5) cents. We are forecasting basic reported EPS of 1.3 cents in FY07 and 3.9 cents in FY08. The FY08 EPS is diluted by the full impact of the 49M new shares issued during FY07, including 11.4M that were issued in March 2007 to fund the Aldridge acquisition.

The company reported net debt of $11.1M at the end of December. Our FY07 forecasts for net debt of $37.1M and gearing of 98% consider about $20M in debt funding for the Aldridge acquisition. We estimate the company has capacity for about $10M in additional debt funding, primarily to support organic growth and working capital requirements. Debt funding for further acquisitions will most likely be negotiated as required.

The company's balance sheet is relatively stretched. We would not be surprised if the company raised equity to support movement towards their target gearing of about 50%.

Traffic Technologies has a significant number of potentially dilutive securities on issue including preference shares, convertible notes and options (see section 10.3 Capital Structure below for more details). The following table summarises the potential impact on our EPS forecasts under different dilutive scenarios.

Table 4: Potential EPS Dilution

		FY07e	FY08e	FY09e	Assumptions
NPAT (reported) *no exercise of options*	**$M**	**1.5**	**6.1**	**8.1**	*No cash inflow from exercise of options i.e. no additional interest income*
Basic EPS	**c**	**1.4**	**3.9**	**5.1**	*WANOS considers all FPO shares and preference shares; assumes convertible notes are converted into pref shares in Sept 2007*
NPAT (reported) *exercise options*	**$M**	**1.5**	**6.3**	**8.3**	*Cash inflow of about $5.5M from exercise of 14.6m options in FY08 i.e. interest income of about $175K in FY08 and FY09*
Fully Diluted EPS	**c**	1.4	3.9	5.0	*See WANOS for basic EPS plus assumes 14.6m options on issue are exercised in FY08*

Source: WHTM

The upside of the options is potential financing cash inflows to Traffic Technologies over the next 2 to 3 years. The potential value of exercised options is about $5.5M (although the timing is difficult to forecast) which could support further acquisitions.

9. Valuation

We believe Traffic Technologies' strategy of becoming the dominant supplier in the road maintenance and construction industry is believable and achievable. Management has demonstrated its ability to purchase assets at good prices while (1) improving the operational performance of underperforming businesses and (2) extracting synergies from profitable businesses.

The sector is attractive as considerable monies are flagged to be spent by Federal and State Governments as well as infrastructure funds. The industry is currently very fragmented and there are a significant number of acquisition opportunities.

We believe that Traffic Technologies is potentially a takeover target from one of the contractors in the industry should the consolidation strategy prove successful.

We have a 12 month share price target of 51 cents which is based on a PER multiple of 10 times FY09 earnings. We initiate coverage on Traffic Technologies with a buy recommendation.

10. Company Details

10.1. Board of Directors

Mr. Samuel Kavourakis - Non-Executive Chairman (appointed January 2004)

- More than 30 years experience with National Mutual including 8 years as MD of National Mutual Funds Management.
- Currently a Director of Collins House Financial Services, Australand Wholesale Investments Ltd, Centro Property Group Limited, Centro Retail Trust and the Rio Tinto Staff Superannuation Fund.
- Previously a Director of Ticor Group Limited

Mr. Constantine Scrinis - Joint Managing Director (appointed April 2003)

- More than 20 years experience in the lighting industry. Established Moonlighting, a manufacturing and distribution business specialising in industrial and commercial lighting, with Con Liosatos in 1991. The business was sold in 2004 but the Smart Traffic Light was retained and was the primary product of Traffic Technologies when it re-listed in January 2005.
- Previously a Director of New Age Exploration Limited (formerly Labtam Limited)

Mr. Constantinos Liosatos - Joint Managing Director (appointed April 2003)

- More than 20 years experience in the lighting industry. Established Moonlighting, a manufacturing and distribution business specialising in industrial and commercial lighting, with Con Scrinis in 1991. The business was sold in 2004 but the Smart Traffic Light was retained and was the primary product of Traffic Technologies when it re-listed in January 2005.
- Previously a Director of New Age Exploration Limited (formerly Labtam Limited)

Mr. Alan Brown - Non-Executive Director (appointed January 2004)

- Experience in the private and public sectors. Formerly a Member of the Victorian Parliament from 1979-97, Leader of the Victorian Liberal Party and Minister for Transport.
- Chairman of Apprenticeships Plus, the Bass Coast Community Foundation and Work & Training Limited.

Mr. Cary Stynes - Non-Executive Director (appointed January 2004)

- Experience in a range of finance and management roles for a number of international companies, including as a commercial lawyer with Minter Ellison. Admitted to practice in the Supreme Court of Victoria and the High Court of Australia.
- Previously Managing Director of Media Entertainment Group Limited, Managing Director and Chief Executive Officer of ASX-listed Software Communication Group Limited and Managing Director of ASX-listed CBD Energy Limited
- Managing Director of ASX-listed The Swish Group Limited.
- Director of a range of private companies and Principal of Stynes Consulting and Stynes and Associates which are commercial and legal consulting practices.

Dr. Richard Gregson - Non-Executive Director (appointed February 2006)

- Co-founder and Managing Director of Equity Partners, experience with the development and expansion of SMEs.
- Non-executive Director of private companies in industries including healthcare, logistics, resources and financial services.
- Director of Energy Developments Limited and Portland Orthopaedics Limited.

Mr. Rajeev Dhawan - Alternate Director for Dr Gregson (appointed May 2006)

- Partner of Equity Partners
- Extensive venture capital and private equity experience with Hambro-Grantham Management/CFSPE
- Director of Snowball Group Limited and Portland Orthopaedics Limited.

Mr. Ray Horsburgh – Non-Executive Director (appointed November 2006)

- Previously held various positions with Australian Consolidated Industries from 1963 to 1994 including CEO of ACI Glass
- Currently Group Managing Director and CEO of Smorgon Steel Group Limited
- Currently Non-Executive Director of Toll Holdings Limited, Chairman of Essendon Football Club, a Director of the Business Council of Australia, Deputy Chairman of Westbourne and Williamstown Grammar Schools and a Director of Epworth Hospital.
- Formerly a Director of ANI Limited, Email Limited and Metalcorp Limited

10.2. Shareholders

Joint Managing Directors Con Scrinis (via Astra Glen) and Con Liosatos (via Contelite) own 3.1% and 3.2% of issued shares respectively. Other members of the Board own a combined share of 2.2% of issued shares.

Equity Partners has a "relevant interest" over 5.8M (4.6%) of the ordinary shares owned by Con Scrinis and Con Liosatos. The interest relates to control over the sale, transfer and voting rights of the shares in certain takeover circumstances.

Equity Partners is a private equity firm. It involves 14 institutions including Commonwealth Super Board, ING Investment Management, Macquarie Investment Management, Victorian Funds Management and QIC. Equity Partners is represented on Traffic Technologies' Board by Dr. Richard Gregson and Mr. Rajeev Dhawan.

QIC is a substantial holder with 6.1% of issued shares. BT is also substantial with a 5.4% holding.

KJ Aldridge Investment Group (associated with the founder of Aldridge Traffic Group) owns 7.6% of issued shares.

10.3. Capital Structure

Equity (at 28 May 2007)

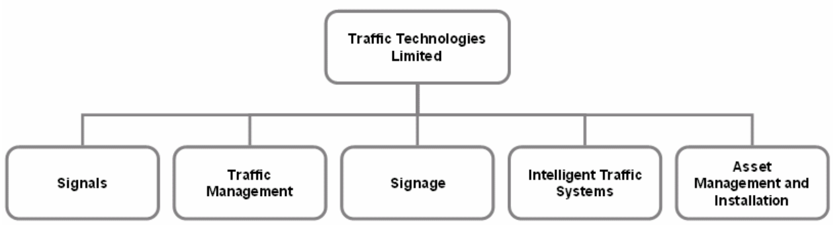
- 125,591,346 fully paid ordinary shares listed on the ASX
- 24,000,000 preference shares (unlisted). The preference shares were issued to Equity Partners Two Pty Ltd in March 2006 at 25c. The preference shares are convertible to into fully paid ordinary shares at the option of Equity Partners. There is no specified time limit for conversion. There are covenants around conversion relating to the potential voting power of Equity Partners Two.
- 14,625,000 options with exercise prices ranging from 20-55c and expiry dates ranging from December 2008 to December 2010.

Debt (at 31 December 2006)

- $12.9m of current liabilities and $0.8m of non-current liabilities
- Includes $2m of convertible notes held by Equity Partners Two with interest charge of 8%. The notes are convertible into preference shares at 26c at the option of the Equity Partners at any time before 15 September 2007. If the convertible notes have not been converted by 15 September 2007 otherwise Traffic Technologies must redeem the notes in cash.
- NB. The Aldridge acquisition settled in May 2007. The total consideration of $37M included about $20M in debt.

11. Appendix 1 - Business Divisions

Traffic Technologies operates 5 main divisions which serve to offer a spectrum of traffic-related solutions.



11.1. Signals (including Aldridge Traffic Group)

The Signals division was established following the acquisition of Aldridge Traffic Group which settled in May 2007. The acquired business was profitable with the purchase price of $37M representing 6 times FY07 EBIT.

Aldridge was established in 1968 and is the leading manufacturer and supplier of traffic signal equipment in Australia. Market share is estimated to be greater than 80% in Australia. The product suite includes traffic and pedestrian signals which utilise Light Emitting Diode (LED), incandescent and quartz halogen technologies.

The Signals Division also includes thee Smart Traffic Light. Co-founders Con Scrinis and Con Liosatos have been involved in the development of the Smart Traffic Light since 1997. The product also utilises LED technology and has achieved some success in Asia.

LED traffic lights use less power and have a longer life with lower maintenance costs than traditional incandescent and quartz halogen traffic lights. Aldridge is the only company in Australia to have all of the required State and Federal approvals for its LED traffic signals and associated products. The difficultly associated with obtaining the required approvals from transport and electrical authorities acts as a barrier to entry in this market.

A key driver in the traffic signal market is policies from Road Authorities mandating the implementation of LED signals rather than traditional incandescent and quartz halogen lamps. Most Road Authorities require that new intersections are fitted with LED traffic lights while retrofit programs have been implemented in South Australia, New South Wales and Queensland. There are currently about 11,000 intersections with traffic signals in Australia of which about 20% have been retrofitted to LED. The company estimates that more than 80% of existing traffic lights will be retrofitted with LED technology by 2015.

Continued investment in road infrastructure also supports sector growth as most new traffic intersections require traffic lights.

11.2. Traffic Management

The Traffic Management division provides services to manage the flow of traffic around temporary road and construction projects. Services include consultation, street closure plans and approvals management and the provision of traffic controllers, vehicles and equipment. The division employs more than 1000 casual staff and has over 300 vehicles.

The division was established by the acquisition of Brisbane-based Traffic Services Australia (TSA) in late 2004. Following a number of bolt-on acquisitions Traffic Technologies has a network of subsidiaries offering Australia's only nation-wide traffic management service. Traffic Technologies is the largest provider in the country and also has the largest representation in each State.

The traffic management market is estimated to be worth about $200M per year. Traffic Technologies currently has a market share of about 20%. Competitors are typically small, privately owned companies that were previously spun-off from the government-operated road authorities.

Key customers include Councils and Road Authorities (e.g. Brisbane City Council, the RTA of NSW) and large contractors such as Leighton and Downer EDI. For example, Traffic Technologies is currently involved with the Albury Wodonga Bypass, EastLink and the Leighton Abi Gateway.

The Traffic Management division uses relatively sophisticated systems to manage contract execution including staff and vehicle rostering. The systems are leveraged to provide high levels of customer service including 24 hour support. Relationships and client satisfaction are important in securing repeat business.

Regulation of the traffic management sector is increasing and safety requirements are becoming more strict. Traffic Technologies is an accredited tester and all traffic controllers affiliated with the company are appropriately licensed. The company also operates training and induction for its controllers.

Workers are employed under Enterprise Bargaining Agreements. Wages are standardised across the sector with increases of about 3-4% per year. Wage increases are passed on to customers through higher contract prices.

Road works can only be undertaken with licensed traffic controllers onsite. The industry is largely service driven and the key barriers to entry are licensing of staff and capacity for scale (for larger projects). Traffic Technologies is differentiated by its nation-wide coverage and high levels of customer service. Increasing regulations are making it more difficult for smaller players to compete.

Key risks relate to public liability and the safety of controllers. We understand that insurance premiums are comparable to the manufacturing industry. Traffic Technologies has a low claims history.

The company is in the process of shifting from vehicle ownership to lease arrangements with Custom Fleet. This should be completed by the end of FY07 and should deliver lower interest and depreciation charges but higher operating costs. The net impact should be a modest saving of about $0.1M pa from FY08.

Since acquiring TSA from administrators, Traffic Technologies has successfully turned the business around. Subsequent acquisitions were EPS accretive and the division is now profitable. Organic growth, which was 28% in 1H07, has been supported by the opening of new Traffic Management branches and increased business from existing customers.

11.3. Signage

The Signage Division manufactures fixed metal signs including street names, speed limit and highway signs as well as park and council signs. About 80% of sales relate to standard products with the remainder being made-to-order. The division employs 180 people with the main production facility located in Melbourne.

The division was established with the acquisition of De Neefe Signs in October 2005 and was bolstered by the purchase of Perth-based Sunny Signs in March 2006.

The market for traffic signs is estimated to be worth about $150M growing at a rate of about 10% pa. The main competitors are Road Management Solutions and Artcraft who cover the Sydney and Brisbane markets respectively.

Fixed metal signs are relatively standardised so Traffic Technologies aims to differentiate itself by high levels of customer service.

Primary customers are Government organisations including State-based Road Authorities. For example, the company has recently been awarded a $3M contract with the NSW RTA to maintain fixed road signage. The division also services the private sector.

The main focus of the division has been the turnaround of DeNeefe which was not profitable on acquisition. An operational restructure is nearing completion with efficiency improvements already emerging including a 30% reduction in headcount. The Sunny Signs integration is also largely complete and we are expecting some synergy benefits in FY08.

We believe existing operations provide a good platform for organic and acquisitive growth Purchases will most likely support expansion of the company's geographical coverage. Other opportunities for earnings growth may potentially relate to expansion into sign installation and outsourcing manufacturing offshore to help reduce costs.

11.4. Intelligent Traffic Systems (previously Signals and Hardware)

The Intelligent Traffic Systems (ITS) division designs, manufactures, distributes and installs specialist traffic products. The offering includes internally developed and acquired products as well as licensed equipment.

The majority of products are differentiated from alternatives in the market; key points of difference relate to features rather than price.

The product suite includes lighting systems (e.g. for sport stadiums and car parks), speed cameras, highway emergency telephones and traffic cones. All products comply with the relevant quality standards.

Overheads of the division are relatively low as the operation is comprised of small sales teams in each state with about 10 staff in total. We expect growth will be supported by cross-selling the products to customers of Traffic Technologies' other divisions. The products typically have high gross margins, some up to 40%, given their specialist nature.

Most of the products are relatively new to the Australian market and the division is still establishing a track record. Market acceptance of the products should support earnings growth from the division over the next 3-5 years.

11.5. Asset Management and Installation

This division was established in 2006 with the acquisition of Guard Rail Installations (GRI) and includes the line marking business from the De Neefe acquisition. The division employs more than 50 staff.

GRI supplies and installs steel and wire rope guard rails and barriers for roads and highways, including the specialist product Barrier Guard 800. We understand the company is assessing opportunities for geographical expansion of the GRI.

The line marking business currently operates in South Australia. Traffic Technology typically charges per metre of marking and contracts can relate to projects for cark parks, high ways and small roads.

Growth for this division may potentially relate to extending installation and maintenance services to other Traffic Technologies products e.g. sign installation.

Traffic Technologies Limited (TTI : $0.41)

INVESTMENT FUNDAMENTALS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EPS Reported (c)	-2.4	-1.5	1.3	3.9	5.1
EPS Normalised (c)	**-2.4**	**-1.5**	**1.6**	**4.2**	**5.4**
EPS Growth (%)	N/A	36.5%	186.9%	195.5%	30.8%
PER Normalised (x)	**-17.0**	**-26.8**	**26.5**	**9.7**	**7.6**
DPS (c)	0.0	0.0	0.0	1.8	2.5
Payout (%)	**0.0%**	**0.0%**	**0.0%**	**44.5%**	**48.6%**
Yield (%)	0.0%	0.0%	0.0%	4.3%	6.1%
Franking (%)	0%	0%	0%	100%	100%

VALUATION DATA

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EV / EBITA (x)	-45.6	-74.7	30.4	7.9	6.2
EV / EBITDA (x)	-45.4	41.2	18.5	6.7	5.4
CFPS (c)	-7.5	-6.7	-4.0	5.9	5.2
Price / CF	**-5.5**	**-6.1**	**-10.2**	**7.0**	**7.8**
Book Value / Share ($)	0.4	0.2	0.3	0.3	0.3
Price / Book (x)	**1.0**	**1.7**	**1.6**	**1.5**	**1.4**

PROFIT & LOSS ($m)

Yr Ending June	2005A	2006A	2007E	2008E	2009E
Sales Revenue	18.8	57.5	88.5	126.3	140.1
EBITDA	-0.2	0.9	5.3	13.9	16.5
Depreciation	0.0	1.3	2.1	2.2	2.1
EBITA	**-0.2**	**-0.5**	**3.2**	**11.8**	**14.4**
Amortisation	0.0	0.0	0.3	0.4	0.4
EBIT	**-0.2**	**-0.5**	**3.0**	**11.3**	**14.0**
Net Interest Expense	0.4	0.4	1.2	2.4	2.2
Pre-tax Profit	**-0.6**	**-0.9**	**1.8**	**8.9**	**11.7**
Tax	0.0	0.0	0.3	2.8	3.6
Tax rate (%)	0.0%	0.0%	17.4%	31.5%	31.1%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	**-0.6**	**-0.9**	**1.5**	**6.1**	**8.1**
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	-0.6	-0.9	1.5	6.1	8.1
Revenue Growth (%)	N/A	205.1%	54.0%	42.7%	10.9%
EBIT Growth (%)	N/A	-106.1%	727.3%	279.1%	23.5%
NPAT Growth (%)	N/A	-50.7%	260.2%	315.5%	32.3%

PROFITABILITY RATIOS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EBIT / Sales (%)	**-1.2%**	**-0.8%**	**3.4%**	**9.0%**	**10.0%**
ROA (%)	N/A	-1.9%	4.7%	12.0%	14.1%
ROE (%)	**N/A**	**-7.4%**	**5.2%**	**15.1%**	**17.9%**
ROFE (%)	N/A	-2.9%	6.6%	16.1%	20.1%

INTERIMS ($m)

Half Yr	Dec 05	Jun 06	Dec 06	Jun 07	Dec 07
Yr Ending June	**1H A**	**2H A**	**1H A**	**2H E**	**1H E**
Sales Revenue	24.0	33.5	43.5	45.0	60.7
EBIT	-0.4	-0.1	1.7	1.3	4.8
Net Profit	**-0.4**	**-0.5**	**1.1**	**0.4**	**2.4**
EBIT / Sales (%)	-1.7%	-0.2%	3.8%	3.0%	7.8%

BALANCE SHEET ($m)

Yr Ending June	2005A	2006A	2007E	2008E	2009E
Cash	1.0	6.7	1.1	2.3	2.5
Receivables	4.2	13.8	19.3	23.6	26.1
Inventories	0.1	3.1	8.8	12.6	13.9
Other	0.0	0.2	0.0	0.0	0.0
Current Assets	**5.4**	**23.9**	**29.2**	**38.4**	**42.6**
Net PPE	3.3	9.7	12.1	12.0	12.1
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	5.6	9.0	49.8	49.3	48.9
Other	0.5	0.6	0.0	0.0	0.0
Non-current Assets	**9.5**	**19.4**	**61.9**	**61.3**	**61.1**
Total Assets	**14.8**	**43.3**	**91.2**	**99.7**	**103.6**
Current Payables	3.0	11.2	13.8	19.7	19.8
Current Debt	4.6	6.2	6.2	6.2	6.2
Non-Current Debt	0.8	5.0	32.0	24.0	21.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other	0.5	2.0	1.5	6.7	9.3
Total Liabilities	**8.9**	**24.4**	**53.5**	**56.6**	**56.3**
Equity	41.7	20.9	38.3	40.3	40.3
Reserves	0.1	0.6	0.6	0.6	0.6
Retained Profits	-35.9	-2.6	-1.2	2.2	6.4
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	**5.9**	**18.9**	**37.7**	**43.1**	**47.3**
Total Funds Employed	**10.2**	**23.4**	**74.8**	**71.1**	**72.0**

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2005A	2006A	2007E	2008E	2009E
Net Debt (Cash) ($m)	4.4	4.5	37.1	28.0	24.8
Net Debt / Equity (%)	**74.4%**	**23.9%**	**98.4%**	**64.9%**	**52.4%**
Interest Cover (x)	-0.6	-0.6	2.1	4.5	5.7
Debt / CashFlow (x)	**-2.9**	**-2.8**	**-8.6**	**3.3**	**3.3**

Yr Ending June	2005A	2006A	2007E	2008E	2009E
EBIT	-0.2	-0.5	3.0	11.3	14.0
Dep'n and Amort'n	0.0	1.3	2.3	2.6	2.6
Net Int Rec'd (Paid)	-0.4	-0.4	-1.2	-2.4	-2.2
Tax Paid	0.0	0.0	0.0	-0.2	-2.2
Dec / (Inc) W'kg Cap	-1.3	-4.5	-8.6	-2.1	-3.8
Other	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	**-1.9**	**-4.0**	**-4.5**	**9.1**	**8.3**
Capital Expenditure	0.1	-1.9	-4.5	-2.0	-2.3
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-6.2	-5.0	-41.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	**-6.1**	**-6.9**	**-45.5**	**-2.0**	**-2.3**
Equity Raised	5.2	13.1	17.4	2.0	0.0
Inc / (Dec) in Loans	2.1	2.1	27.0	-8.0	-3.0
Dividends Paid	0.0	0.0	0.0	0.0	-2.7
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**7.3**	**15.2**	**44.4**	**-6.0**	**-5.7**
Net Cash Flow	**-0.7**	**4.2**	**-5.6**	**1.1**	**0.2**

Disclosure of Interest. The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in NIL securities in Traffic Technologies Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Traffic Technologies Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

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