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

**HALF-YEAR FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018
PROVIDED TO THE ASX UNDER LISTING RULE 4.2A**

***This half-year financial report is to be read in conjunction with the
financial report for the year ended 30 June 2018***

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**TRAFFIC TECHNOLOGIES LTD
("TTI")
(ABN 21 080 415 407)**

Appendix 4D

**Half-year financial report
Period ended 31 December 2018
(Comparative period: period ended 31 December 2017)**

Results for announcement to the market

1. Results				
		%		A\$'000
Revenues from ordinary activities	Down	11%	to	25,047
Earnings before interest and tax	Up	7%	to	1,597
Profit/(loss) after tax attributable to members	Up	15%	to	825
Net profit/(loss) from ordinary activities after tax attributable to members	Up	15%	to	825
For commentary on the results for the period and review of operations, refer to Directors' Report.				
2. Dividends		Amount per security	Franked amount per security	
Interim dividend		Nil	Nil	
Previous corresponding period: Interim dividend		Nil	Nil	
Record date for determining entitlements to the dividend		N/A		

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3. Net tangible assets per security

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	0.4 ¢	-3.4 ¢

4. Details of entities over which control has been gained or lost during the period:

Control gained over entities

Name of entities	N/A	
Date(s) of gain of control	N/A	
Contribution to consolidated profit/(loss) from ordinary activities after tax by the controlled entities since the date(s) in the current period on which control was acquired	N/A	

Control lost over entities

Name of entities	N/A	
Date(s) of loss of control	N/A	

5. Details of individual and total dividends or distributions and dividend or distribution payments

No interim dividend has been declared in respect of the half-year ended 31 December 2018 (2017: Nil). Total dividend Nil (2017: Nil).

6. Details of any dividend or distribution reinvestment plans in operation

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 Australian and New Zealand. Participation can be full or partial and can be varied or cancelled at any time. If a shareholder elects to participate in the DRP, the dividend otherwise payable on the shareholder's ordinary shares participating in the DRP will be reinvested in ordinary shares in the Company. These shares will either be issued to the shareholder or acquired on-market and transferred to the shareholder. Shares may be allocated at a discount to the market price of the shares. The Directors will determine a discount of up to 10% for each dividend declared.

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7. Details of associates and joint venture entities

Name of associate / joint venture	%	Securities held
N/A		N/A

8. Financial reporting framework

The financial information provided in the Appendix 4D is based on the half-year condensed financial report (attached), which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

9. Independent review of the financial report

The half-year financial report has been independently reviewed and is not subject to a qualified independent review conclusion.

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

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

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2018.

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TRAFFIC TECHNOLOGIES LTD
FINANCIAL REPORT FOR THE HALF-YEAR ENDED
31 DECEMBER 2018

TABLE OF CONTENTS

	Page
Corporate Information	2
Directors' Report	3-6
Consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Notes to the Consolidated Financial Statements	11-15
Directors' Declaration	16
Independent Auditor's Review Conclusion	17
Auditor's Independence Declaration	19

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Traffic Technologies Ltd

Financial Report for the half-year ended 31 December 2018

CORPORATE INFORMATION

This financial report covers Traffic Technologies Ltd (ABN 21 080 415 407) (the Company) and its subsidiaries (the Group) for the half-year ended 31 December 2018. The Group's functional and presentation currency is AUD (\$). A description of the Group's operations and principal activities is included in the Operating and Financial Review section within 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 Johnson Street
Abbotsford VIC 3067
Tel: 1300 850 505

Traffic Technologies Ltd shares are listed on the Australian Securities Exchange ("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

Half-year Financial Report

Directors' Report for the half-year ended 31 December 2018

The Directors of Traffic Technologies Ltd (the Company) present their financial report for the half-year ended 31 December 2018 in order to comply with the provisions of the Corporations Act 2001.

DIRECTORS

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

Mr. Garry Lowrey BBus MAppFin CA (Non-Executive Chairman)

Mr. Con Liosatos MAICD (Managing Director)

Mr. Mark Hardgrave B Com ACA MAICD (Non-Executive Director)

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 2016/191. The Company is an entity to which the Class Order applies.

OPERATING AND FINANCIAL REVIEW

Operations

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

Traffic Technologies Ltd

Half-year Financial Report

Directors' Report for the half-year ended 31 December 2018

Financial Performance

Revenue for the half-year ended 31 December 2018 was \$25.0m (2017: \$28.1m). Earnings before Interest and Tax (EBIT) was \$1.6m (2017: \$1.5m), after taking into account one-off costs of \$0.2m comprising restructuring costs and other non-recurring expenditure. Net Profit after Tax (NPAT) was a profit of \$0.8m (2017: \$0.7m).

Despite revenue decreasing compared to the previous corresponding period due to project delays in the first half, the first half represents an overall improvement in profitability compared to the same period last year with EBIT improving by 7% and NPAT by 15%.

First half revenue was affected by a number of project delays. Delays were caused by political uncertainty including the forthcoming Federal election and the recent state election in Victoria. In addition, the roll-out of LED lighting upgrades has been slower than anticipated, however, we expect some of the backlog in projects will be caught up in the second half.

The Group's diversification program has transformed its business by de-risking its revenue through expanding into "Smart City" platforms, 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 TST software across the east coast will enable road authorities, councils and power companies to fully utilise and maintain critical assets in real time. The Group is also continuing to benefit from a number of significant contracts to supply LED road and street lights across the country.

Depreciation and amortisation expense during the half-year was \$0.8m (2017: \$0.9m). Finance costs were \$0.6m (2017: \$0.8m). The Group's income tax expense was \$0.1m (2017: \$29,000). The Group continues to benefit from carried forward tax offsets. Earnings per share (EPS) were 0.17 cents, (2017: 0.26 cents), taking account the impact of the rights issue earlier in 2018.

Financial Position

Net assets were \$20.7m at 31 December 2018, compared to \$19.9m at 30 June 2018, reflecting the net profit for the period. Receivables were \$8.6m at 31 December 2018, compared to \$10.8m at 30 June 2018. Payables were \$7.6m at 31 December 2018, compared to \$8.7m at 30 June 2018. Inventory was \$11.7m at 31 December 2018, compared to \$10.2m at 30 June 2018. Property, plant and equipment was \$1.1m at 31 December 2018, compared to \$1.3m at 30 June 2018.

The Group had \$10.6m of goodwill and \$8.5m of intangible assets at 31 December 2018, mainly comprising development costs and type approval certification associated with the development of its traffic signals, traffic controllers, pedestrian countdown timers, electronic road signs, emergency telephones, street lighting products and "Smart City" products.

Net debt was \$9.7m at 31 December 2018, compared to \$9.3m at 30 June 2018. The Group has a loan 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 at 31 December 2018. The loan is for a term of 3 years from 18 April 2018. The Company can seek the financier's approval to extend the term for up to 12 months. The Company has taken out a one year derivative financial instrument expiring on 18 April 2019 to hedge the currency exposure on this loan. In the six months to 31 December 2018, the Group incurred a foreign exchange loss on the loan of \$0.6m, offset by a gain of \$0.6m on the derivative financial instrument.

Net operating cash inflows were \$1.5m for the period (2017: \$1.9m). Net investing cash outflow was \$1.2m (2017: \$1.1m). Net financing cash outflow was \$0.1m (2017: outflow \$0.1m).

Traffic Technologies Ltd

Half-year Financial Report

Directors' Report for the half-year ended 31 December 2018

Business Strategies and Prospects

The Group has undertaken a transition program and is now less reliant on its traditional business of traffic signal and road sign manufacture. The Group is now realising the benefits of its research and development program focussed on advancing it from a purely product-based business to a product, services and now platform-based business.

The objective of this transition program has been to develop a more robust business with a leading range of products and services that can be supplied individually or as a package to road authorities or local councils seeking an integrated solution. To this end the Group has recently completed the first major roll-out of its proprietary software "Smart City" platform, TST, which connects street lights and other traffic management equipment on the road to a central control and management system. This platform has wider applications for the future, including detection of traffic flows, waste management, parking availability and monitoring of government infrastructure.

The Group expects its TST platform will be a significant growth area for the Group in the years ahead, particularly given the key drivers for smart cities are operational efficiency/cost reduction, environmental sustainability, improved city management and infrastructure resilience.

The Group has taken steps to de-risk its revenue and earnings base by diversifying its products and markets and securing a number of long-term supply contracts which are expected to provide further growth opportunities in the years ahead. The Group's product range has been extended with commercialisation of a range of LED road and street lights, as well as a range of ITS products in the electronic signage area and an increased focus on innovative traffic signal products such as pedestrian countdown timers, signal safety products and control systems.

The Group's range of LED street and road lights continues to be an important growth area. The Group's LED street lights are significantly more energy efficient than conventional street lights and represents 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.

The Group's research and development program ensures that it remains a market leader in a global traffic industry which demands energy efficient products and increasingly innovative solutions. The Group has developed a range of new products in the Intelligent Transport Systems (ITS) sector, including school speed zone signs, variable message signs and various electronic signs which have now been commercialised.

The Group has retained its position as the dominant supplier of traffic signals to the Australian market. The Group continues to develop innovative traffic signal products, which utilise the latest LED technology and software and which have been supplied to customers across Australia, New Zealand and the United Kingdom.

The Group continues to be one of the main suppliers of road signs to the Australian market. Signage products continue to contribute to profits, benefitting from an ongoing focus by management and staff on cost control and factory efficiency combined with a focus on quality, service and reliability in a highly competitive market.

The Group is focused on developing and growing its export markets including the UK, New Zealand, Asia, the Middle East and South America. The Group's controller products in particular are winning significant export contracts. New contracts and orders are coming from countries and regions across Asia, Middle East and South America and are opening potential new future export markets for the Group's other products such as traffic signals and electronic signage.

Although the Group is not yet in a position to issue earnings guidance for the full financial year to 30 June 2019, it expects to see a positive contribution in the second half from the above initiatives.

Traffic Technologies Ltd
Half-year Financial Report
Directors' Report for the half-year ended 31 December 2018

Material Business Risks

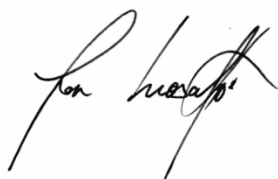
The material business risks faced by the Group that could have a significant impact on the financial prospects of the Group and how the Group manages these risks include:

- 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.
- 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.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, ShineWing Australia, which immediately follows the 31 December 2018 Review Conclusion.

Signed in accordance with a resolution of the Directors made pursuant to s.306 (3) of the Corporations Act 2001.



Con Liosatos
Managing Director

Melbourne, 27 February 2019

Traffic Technologies Ltd
Half-year Financial Report
Consolidated Statement of Profit or Loss and Other Comprehensive Income for
the half-year ended 31 December 2018

	Note	Half-Year to 31 Dec 2018 \$'000	Half-Year to 31 Dec 2017 \$'000
Revenue from continuing operations	6	25,047	28,139
Other income	6	81	58
Changes in inventories of finished goods and work in progress		1,527	1,845
Raw materials and consumables used		(15,119)	(17,873)
Employee benefits expense		(7,086)	(7,506)
Occupancy costs		(1,024)	(996)
Advertising and marketing expense		(49)	(105)
Other expenses		(937)	(1,197)
Depreciation and amortisation expenses		(843)	(868)
Earnings before interest and tax (EBIT)		1,597	1,497
Finance costs		(624)	(751)
Profit for the period before income tax expense		973	746
Income tax expense		(148)	(29)
Net profit for the period		825	717
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		825	717
Profit per share		Cents	Cents
- Basic earnings per share		0.17	0.26
- Diluted earnings per share		0.17	0.26

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd
Half-year financial report
Consolidated Statement of Financial Position as at 31 December 2018

	Note	31 Dec 2018 \$'000	30 Jun 2018 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		4,216	4,044
Trade and other receivables		8,576	10,766
Inventories		11,691	10,164
Derivative financial instrument	4	1,230	619
Total Current Assets		25,713	25,593
Non-Current Assets			
Property, plant and equipment		1,135	1,253
Goodwill	5	10,554	10,554
Intangible assets		8,452	7,956
Total Non-Current Assets		20,141	19,763
TOTAL ASSETS		45,854	45,356
LIABILITIES			
Current Liabilities			
Trade and other payables		7,639	8,730
Interest-bearing liabilities	3	125	172
Provisions		2,595	2,570
Deferred tax liability		807	659
Total Current Liabilities		11,166	12,131
Non-Current Liabilities			
Interest-bearing liabilities	3	13,793	13,128
Provisions		173	200
Total Non-Current Liabilities		13,966	13,328
TOTAL LIABILITIES		25,132	25,459
NET ASSETS		20,722	19,897
EQUITY			
Contributed equity	7	54,755	54,755
Accumulated losses		(34,033)	(34,858)
TOTAL EQUITY		20,722	19,897

The Statement of Financial Position should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd
Half-year Financial Report
Consolidated Statement of Changes in Equity for the half-year ended 31 December
2018

	Ordinary Shares	Share-based payment reserve	Accumulated losses	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2017	49,029	1,000	(41,930)	8,099
Profit for the period	-	-	717	717
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	717	717
Transfer share-based payment reserve	-	(1,000)	1,000	-
At 31 December 2017	49,029	-	(40,213)	8,816
At 1 July 2018	54,755	-	(34,858)	19,897
Profit for the period	-	-	825	825
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	825	825
At 31 December 2018	54,755	-	(34,033)	20,722

The Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

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Traffic Technologies Ltd
Half-year Financial Report
Consolidated Statement of Cash Flows for the half-year ended 31 December
2018

	Half-Year to 31 Dec 2018 Inflows / (Outflows) \$'000	Half-Year to 31 Dec 2017 Inflows / (Outflows) \$'000
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	29,476	32,610
Payments to suppliers and employees	(27,483)	(29,945)
Interest received	25	-
Interest and other costs of finance paid	(553)	(751)
Net cash provided by operating activities	1,465	1,914
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of plant and equipment	17	-
Payment of development costs	(1,040)	(887)
Purchase of property, plant and equipment	(32)	(22)
Purchase of intangible assets	(166)	(147)
Net cash used in investing activities	(1,221)	(1,056)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	1,288
Repayment of borrowings	(72)	(1,420)
Net cash used in financing activities	(72)	(132)
Net increase in cash and cash equivalents	172	726
Cash and cash equivalents at beginning of the period	4,044	660
Cash and cash equivalents at end of the period	4,216	1,386

The Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

Traffic Technologies Ltd
Half-year Financial Report
Notes to the Consolidated Financial Statements for the half-year ended 31
December 2018

1. CORPORATE INFORMATION

The financial report of Traffic Technologies Ltd (the Company) and its subsidiaries (the Group) for the half-year ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 27 February 2019. Traffic Technologies Ltd is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Operating and Financial Review section within the Directors' Report. The amounts contained in the notes to the financial statements have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 2016/191. The Company is an entity to which the Class Order applies. The financial report is presented in Australian dollars (AUD). For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2018 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. This half-year financial report does not include all the notes of the type usually included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full year financial report. It is recommended that the half-year financial report be considered together with the annual report for the year ended 30 June 2018 and any public announcements made by Traffic Technologies Ltd during the half-year ended 31 December 2018 and subsequently to 27 February 2019, in accordance with the continuous disclosure obligations of the *ASX Listing Rules*.

b) New standards adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2018, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard that has been issued but is not yet effective.

The Group has applied, for the first time, AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments. As required by IAS 34, 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.

Traffic Technologies Ltd
Half-year Financial Report
Notes to the Consolidated Financial Statements for the half-year ended 31
December 2018

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.

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

Traffic Technologies Ltd
Half-year Financial Report
Notes to the Consolidated Financial Statements for the half-year ended 31
December 2018

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 4.

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.

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

3. INTEREST-BEARING LOANS AND BORROWINGS

In April 2018 the Company took out a loan 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. The Company has taken out a one year derivative financial instrument expiring on 18 April 2019 to hedge the currency exposure on this loan. Under the loan facility a contingent liability of USD \$485,000 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. The loan is secured by a fixed and floating charge over the Company's assets. The loan is for a term of 3 years. The Company can seek the financier's approval to extend the term for up to 12 months. The loan has a commercial interest rate of 7% per annum, with an increase in the interest rate in years 2 and 3, assuming that the Company has not exercised its right to repay or re-finance the loan after the first 12 months of the loan term.

Traffic Technologies Ltd
Half-year Financial Report
Notes to the Consolidated Financial Statements for the half-year ended 31
December 2018

4. DERIVATIVES

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

	31 Dec 2018	30 Jun 2018
	\$'000	\$'000
Derivative financial asset for foreign currency forward contracts	<u>1,230</u>	<u>619</u>

(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.

5. IMPAIRMENT OF GOODWILL

The Directors have considered impairment with respect to the Group's goodwill in accordance with AASB 134 *Interim Financial Reporting* and are satisfied that goodwill is not impaired at balance date.

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Traffic Technologies Ltd
Half-year Financial Report
Notes to the Consolidated Financial Statements for the half-year ended 31
December 2018

6. REVENUE

	Consolidated 2018 \$'000	Consolidated 2017 \$'000
Revenue		
Revenue from contracts with customers	<u>25,047</u>	<u>28,139</u>
Other income		
Net gain on derivatives held for trading	611	-
Net exchange loss on foreign currency borrowings	(619)	-
Other income	89	58
Total other income	<u>81</u>	<u>58</u>

7. CONTRIBUTED EQUITY

	Number of Shares (‘000)	\$'000
Movement in ordinary shares		
At 1 July 2018 and at 31 December 2018	<u>482,225</u>	<u>54,755</u>

8. EVENTS AFTER BALANCE DATE

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

9. COMMITMENTS AND CONTINGENCIES

There have been no material changes to the commitments and contingent liabilities disclosed in the 30 June 2018 annual financial report.

10. SEGMENT INFORMATION

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.

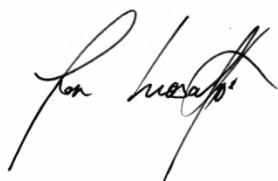
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DIRECTORS' DECLARATION

The directors of the Company state:

- a) the financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and accompanying notes, of the Group are in accordance with the Corporations Act 2001, and:
- (i) give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
 - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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:



Con Liosatos
Managing Director

Melbourne, 27 February 2019

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF TRAFFIC TECHNOLOGIES LIMITED

Report on the Half-year Financial Report

Conclusion

We have reviewed the half-year financial report of Traffic Technologies Limited ("the Company") and its controlled entities ("the Group") which comprises the consolidated statement of financial position as at 31 December 2018, 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 and the directors' declaration.

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

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

Directors' Responsibility for the Half-year Financial Report

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

Auditor's Responsibilities for the Review of the Half-Year Financial Report

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

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



Independence

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

ShineWing Australia

ShineWing Australia
Chartered Accountants

A handwritten signature in blue ink, appearing to read "Rami Eltchelebi".

Rami Eltchelebi
Partner

Melbourne, 27 February 2019

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Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Traffic Technologies Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2018 there have been:

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



ShineWing Australia
Chartered Accountants



Rami Eltchelebi
Partner

Melbourne, 27 February 2019

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