# TRANSFORMING BUSINESS TRAVEL

serko

SERKO LIMITED
ANNUAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2016

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# KEY DATES

**23 AUG 2016**
ANNUAL MEETING

**30 SEP 2016**
HALF-YEAR END

**23 NOV 2016**
HALF-YEAR RESULT ANNOUNCED

**31 MAR 2017**
FINANCIAL YEAR END

THIS REPORT IS DATED 1 JUNE 2016 AND IS SIGNED ON BEHALF OF THE BOARD OF SERKO LIMITED BY SIMON BOTHERWAY, CHAIRMAN, AND DARRIN GRAFTON, CHIEF EXECUTIVE OFFICER.

**Simon Botherway**
Chairman

**Darrin Grafton**
Chief Executive Officer

**INVESTOR CENTRE:** You can access our annual report online at www.serko.com/investor-centre/

# KEY HIGHLIGHTS

## YEAR-ON-YEAR PRODUCT USAGE REVENUE GROWTH 47%

## NEW SME TRAVEL BOOKING SERVICE TO LAUNCH MID 2017

serko .travel

## ACQUISITION AND INTEGRATION OF ARNOLD TRAVEL TECHNOLOGY

## $8.1 MILLION CAPITAL RAISE TO SUPPORT LAUNCH OF SERKO.TRAVEL

## LAUNCH OF BEST RATE OF THE DAY

BEST RATE OF THE DAY

## TRANSACTION GROWTH 54%

# WE ARE FOCUSED ON MAXIMISING THE VALUE OF YOUR INVESTMENT

**Dear Shareholder**

**Introduction**

In the year ended 31 March 2016 (FY16) Serko has delivered continued growth in transactions and revenues. The acquisition of Arnold Travel Technology ("Arnold") in May 2015 allowed us to accelerate the acquisition and migration of customers from a rival platform and to enter into an important strategic relationship with Expedia Inc, the vendor of Arnold.

Despite the strong growth in underlying transactional fee revenue, aggregate revenue did not meet our guidance for the financial year. Commercial negotiations with respect to the introduction of new products and associated revenue streams proved to be more complex than anticipated and caused a delay to the commencement of revenues. We also experienced a decline in ad-hoc client work orders (customised development revenues) which, together, negatively impacted our total revenue result. However, this allowed us to redirect our internal resources to focus on our strategic R&D roadmap. Consequently, the requisite products, innovations and enhancements on our roadmap are now in place, with the exception of SME which will be delivered soon, and we expect these to start contributing to revenue growth in the 2017 financial year (FY17).

During FY16, we identified a new strategic opportunity in the small to medium business (SME) market and developed a powerful new proposition that is expected to launch in the middle of FY17 to address this market. We have entered into partnerships with Xero and a select group of TMC partners to target this market.

**Financial Highlights**

For the 12 months of FY16, total income amounted to $14.4m ($13.1m excluding grant income). Recurring product revenues (from Serko Online and Serko Incharge) increased by 47% to $12.2m in the financial year. The majority of our revenue growth during the year came from transactional revenue derived from online travel bookings which increased by 54% in volume in the period, including the Arnold acquisition. Revenue mix in FY16 comprised 93% derived from recurring transactional fees and usage revenues compared to 80% in FY15.

Total revenue of $13.1m (excluding grant income) was 27% higher than the same period in FY15. Customised development revenues, which are not a core focus for the business, declined by $1.3m from the previous year This provided the opportunity to focus our resources on developing the new SME (Small to Medium Enterprise) platform which is expected to generate revenues in the second half of FY17.

At 31 March 2016 there was committed SME licensing revenue of $0.2m which under accounting rules could not be recognised in the FY16 result.

In line with our plans, the loss before tax reduced from the previous year by $0.6m to $5.9m. This was attributable to limiting the growth in the expense base to a total of $20.7m which was up 14.8% compared to the previous year. Excluding depreciation, amortisation and impairment charges, operating expenses increased by 14% to $19.8m compared to the previous year.

The investment in R&D (total of expensed and capitalised) in FY16 amounted to $6.3m, an increase of $0.6m from the previous year.

**Financial Position**

During the financial period Serko successfully completed a capital raise of $8.1m at 84c per share through an institutional placement and a retail share purchase plan. This capital will assist to fund business operations and support the launch of our new Small and Medium Business (SME) offering in FY17. We are excited and grateful to our shareholders for their continued support and confidence in our vision.

Cash reserves at 31 March 2016 were $7.1m.

**Performance Drivers in FY16**

Throughout the year ended 31 March 2016 (FY16), Serko has concentrated on executing its strategy of increasing average revenue per transaction, whilst growing the size of the customer base.

Our content-led strategy generates additional revenues by offering the traveller additional content such as hotel rooms sourced from our preferred content partners. This strategy aims to increase average revenue per transaction or booking. We now have agreements with reseller partners, representing over a third of Serko's total transaction volumes, to offer this content through to the underlying corporate users.

We expect average revenue per transaction to increase through FY17 as the proposition gains awareness and traction with end-user customers. The process of securing reseller participation took longer to complete than expected due to the complex nature of the commercial negotiations with partners and content providers.

During the financial year we also introduced a new Expense Management reseller incentive program with our TMC channel for our Serko Incharge expense management product to increase awareness and sales of our Incharge product and its key features. We believe we can generate additional sales leads through our established channels, and the program has been received well and is starting to generate a growing volume of leads into the sales pipeline.

In May 2015, Serko acquired the business and assets of Arnold Travel Technologies Pty from Expedia Inc. for AUD$0.1m. This allowed us to accelerate the acquisition and migration of customers from a rival platform and to enter into an important strategic relationship with Expedia Inc. In the 11 months to 31 March 2016, Arnold contributed NZ$1.3m in revenue. We are making good progress in migrating Arnold's customers onto the Serko platform and expect to decommission the Arnold platform in mid FY17.

**Performance Drivers for FY17**

Our purpose remains to transform the way businesses manage travel and expense, enabling their staff to experience stress-free travel so they can always be at their most productive, whilst delivering tangible business benefits to the organisations that choose to adopt, support, partner with or sell our solutions.

We aim to do this by:

- Supporting our reseller base to continue to grow their business through new client wins and client retention. We will focus on ensuring our products offer compelling value and by introducing our new products, services and a broad selection of content that help our resellers deliver to their customer needs.
- Continuing to attract new resellers and partners to Serko.
- Entering the SME market in Australia and New Zealand to create a new, emerging and leveraged business that gives us the path to extend our market reach and recurring revenue base.
- Focussing on those areas of the business that create value for shareholders. We have invested heavily in R&D and we are now in a position of having a strong product suite. The decommissioning of Arnold along with a reduced requirement for R&D spend presents Serko with flexibility to better align the cost base with revenue to ensure that we utilise our capital resources appropriately.

We aim to manage our cost base, financial and capital position to achieve sustainable monthly break-even profitability and positive cash-flow by the end of the FY17 year.

**Looking Forward**

Serko is the leading online booking platform for managed corporate travel in the Australasian market. We are very proud that our technology, innovation and services are so widely adopted and valued within the industry. Our success relies upon the success of our customers – both resellers and end-user corporate clients – and we are committed to ensuring our capabilities and relationships facilitate that mutual success. However, we will take a rational approach to areas of the business that are not meeting our expectations to ensure that our resources are allocated to those parts of the business that will deliver long-term value to shareholders.

The next financial year, FY17, will be an important one for Serko and we look forward to working with all our stakeholders to deliver value for our customers, partners and shareholders.

Yours sincerely

S J Botherway

**Simon Botherway**

Chairman

**Darrin Grafton**

Chief Executive Officer

# BEST RATE OF THE DAY

## A better way to search and buy hotel accommodation.

With recent changes to health and safety it's now critical that organisations know where employees are staying whenever they are out of the office on business. However, getting employees to tow the party line when it comes to hotels has always been a big challenge for travel managers, as employees are happy to book flights through the mandated booking tool but often go off to sites like Expedia and Booking.com to book their accommodation.

Employees like Expedia (etc.) because it gives them more options and there's a familiarity that they like. To minimise what the industry terms 'leakage' (hotel bookings going outside of the defined channels) Serko has integrated content from Expedia, Booking.com and Wotif into Serko Online so that employees can still get what they want, from the branded supplier that they trust, without leaving the managed travel program.

With multiple suppliers inside the portal, Serko has made it possible for travel bookers to compare prices and availability from multiple providers quickly and easily. This is a very powerful concept that's well proven in the leisure world, with sites like Trivago now having significant market share. By removing any incentive for employees to leave the portal, Serko has solved one of the most challenging problems in corporate travel.

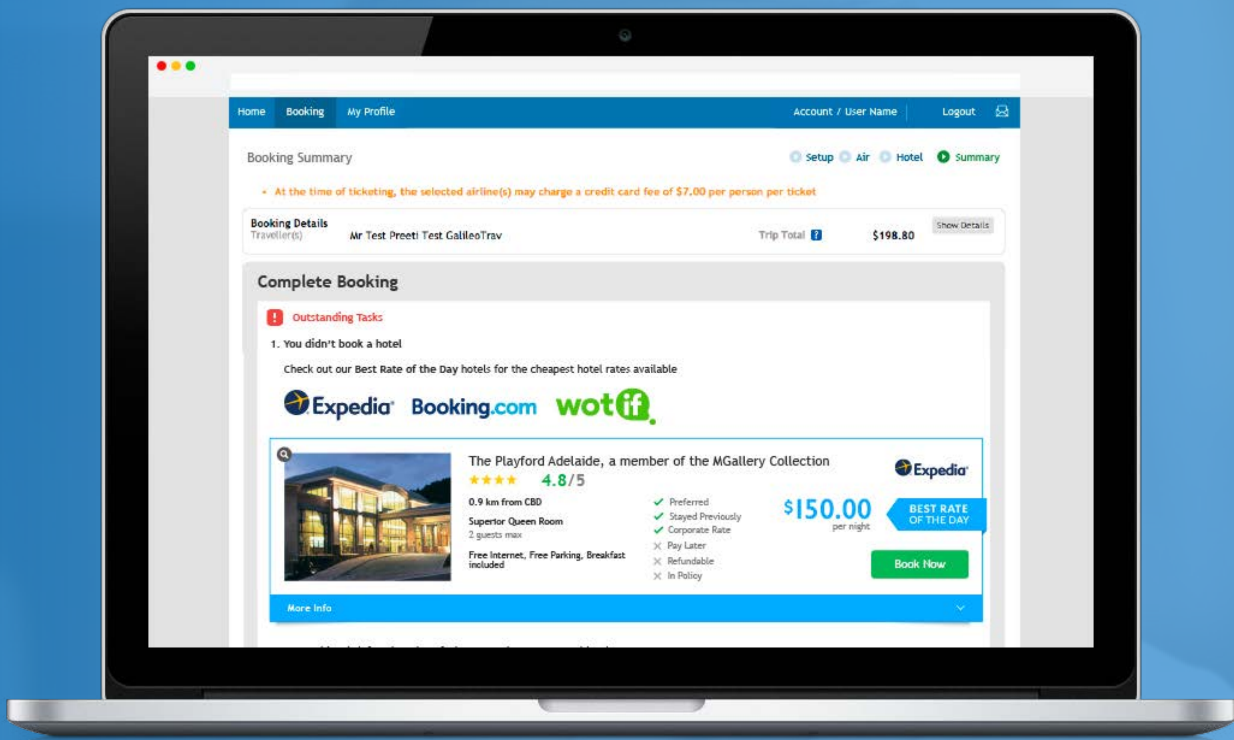
## More choice, more availability, better rates every day

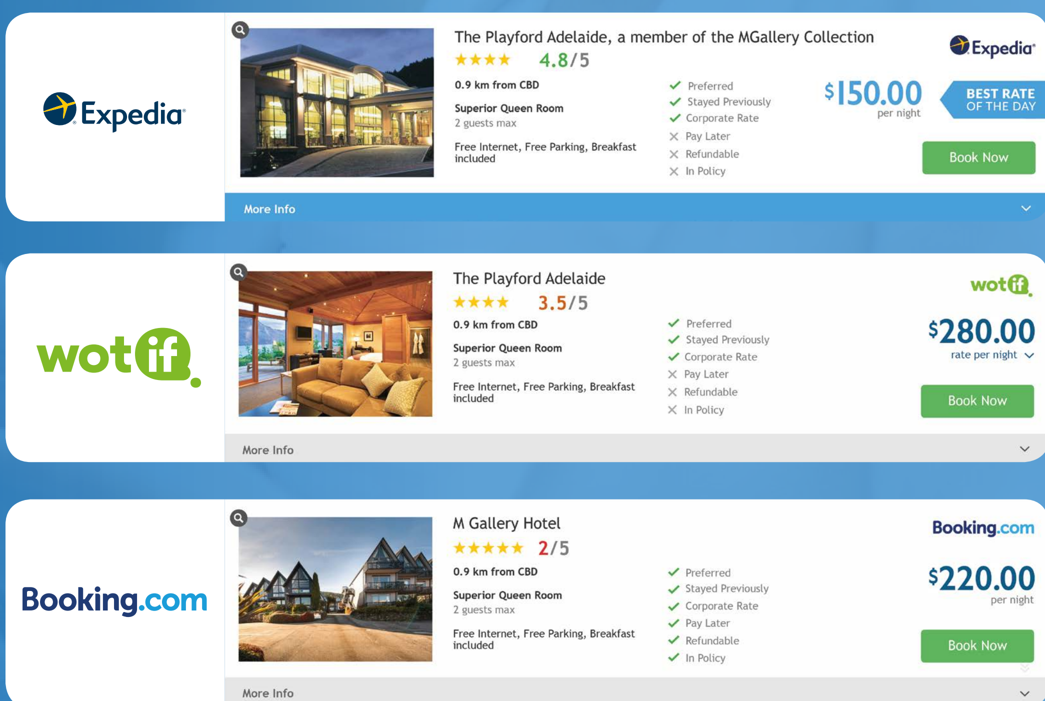
- COMPARE PRICES AND AVAILABILITY BETWEEN PROVIDERS INSTANTLY
- ACCESS TO MORE THAN 12,000 PROPERTIES IN AUSTRALIA AND NZ FROM THE 3 LARGEST PROVIDERS
- HIGHLY VISIBLE BEST RATE OF THE DAY ICON
- FULL CORPORATE TRAVEL POLICY OVERLAY

## BENEFITS

- RAPID REDUCTION IN HOTEL LEAKAGE AND BETTER RISK MANAGEMENT
- COST SAVINGS THROUGH IMPROVED SUPPLIER MANAGEMENT
- REDUCED RISK OF HEALTH AND SAFETY LEGISLATION NON-COMPLIANCE
- MORE SATISFIED EMPLOYEES WHO SPEND LESS TIME BOOKING AND MANAGING TRIPS

# BEST RATE OF THE DAY



# BOARD OF DIRECTORS

## // SIMON BOTHERWAY

**INDEPENDENT NON-EXECUTIVE CHAIRMAN, NEW ZEALAND**
*Appointed 30 April 2014*

Simon is based in New Zealand. He holds a BCom, as well as the US-based Chartered Financial Analyst (CFA) designation. Simon has extensive experience in corporate governance, banking and investment management. In 2002, Simon co-founded Brook Asset Management and was Chairman from 2004 to 2008. He is also a past President of the CFA Society of New Zealand and was a member of the CFA Asia-Pacific Advocacy Committee. Simon was appointed as a member of the Securities Commission in 2009 and was appointed by the New Zealand Government to chair the Financial Markets Authority Establishment Board in 2010. Simon is currently also a Director of the Callaghan Innovation Board.

## // CLAUDIA BATTEN

**INDEPENDENT NON-EXECUTIVE DIRECTOR, UNITED STATES**
*Appointed 30 April 2014*

Claudia is based in the United States. She holds an LLB (Hons) and BCA. Claudia has been a founding member of two highly successful entrepreneurial ventures. Starting with Massive Incorporated, a network for advertising in video games, she helped pioneer 'digital' as a media buy. Massive was sold to Microsoft in 2006. In 2009 she co-founded Victors & Spoils ('V&S'), the first advertising agency built on the principles of crowdsourcing. V&S was majority acquired by French holding company Havas Worldwide in 2011.

Claudia has achieved great success in the US market but remains a strong supporter of the New Zealand start-up scene. Claudia was most recently appointed to run North American operations for New Zealand Trade & Enterprise (NZTE), supporting New Zealand businesses as they grow internationally into that market.

## // CLYDE MCCONAGHY

**INDEPENDENT NON-EXECUTIVE DIRECTOR, AUSTRALIA**
*Appointed 30 April 2014*

Clyde is based in Australia. He holds a BBus and MBA from Cranfield University (UK). Clyde is a Fellow of the Australian Institute of Company Directors and a Fellow of the Institute of Directors UK. He is the founder of Optima Boards, providing independent director and advisory services to public, private, family office and charitable entities around the world. Clyde has worked in publishing, media, online and technology sectors, living in the UK, Germany, China and Australia. He is a Director of ASX-listed technology company, Infomedia Limited, and a former Director of Integrated Research Limited.

## // DARRIN GRAFTON

**CO-FOUNDER, CEO & EXECUTIVE DIRECTOR, NEW ZEALAND**
*Appointed 5 April 2007*

Darrin has 25 years' experience in the travel technology industry and is highly experienced in technology commercialisation. Darrin had previously held senior management positions with Gullivers Travel Group (listed on the Australian and New Zealand Stock Exchanges between 2004 and 2006) and Interactive Technologies. Darrin was awarded the NZX Hi-Tech Entrepreneur Award in 2007 and was a finalist for the NZ Hi-Tech Company Leader Award in 2007. In 2008, Darrin was also a finalist for EY Entrepreneur of the Year Award. Darrin is a member of the Institute of IT Professionals NZ, the Institute of Directors NZ and NZCDP.

## // ROBERT SHAW

**CO-FOUNDER, CHIEF STRATEGY OFFICER & EXECUTIVE DIRECTOR, NEW ZEALAND**
*Appointed 5 April 2007*

Robert (Bob) has 26 years' experience creating and commercialising technology for the travel industry. Bob has held a number of directorships and senior management positions in various companies, including Gullivers Travel Group (listed on the Australian and New Zealand Stock Exchanges between 2004 and 2006) and Interactive Technologies. Bob's strengths lie in his ability to translate opportunities into successful commercial ventures and build the relationships necessary to see them through to fruition.

In 2008, Bob was a finalist for EY Entrepreneur of the Year Award. He is a Member of the Institute of IT Professionals NZ, the Institute of Directors NZ and NZCDP.

# EXECUTIVE TEAM

## // TIM BLUETT

**CHIEF FINANCIAL OFFICER, NEW ZEALAND**

Tim is a Chartered Accountant and has a strong international background in ICT and telecommunications from working in the UK, the US, France, the Caribbean and New Zealand with publicly listed companies, including British Telecom, Equant, Cable & Wireless and Telecom New Zealand (Spark). Prior to joining Serko, Tim served in a number of senior leadership roles at Telecom New Zealand (now Spark) as CFO Technology & Shared Services, CFO Telecom Retail, and Acting Group CFO.

## // PHIL BALL

**CHIEF TECHNOLOGY OFFICER, NEW ZEALAND**

Philip has been a cornerstone of the Serko technology story for nearly 16 years. He graduated with a Bachelor of Information Systems degree in 1999 and joined Serko immediately, starting as junior developer before moving up through the development ranks to become a senior developer. He was appointed CTO in 2013. Philip wrote much of the original Serko Online codebase, having started on the product in 2000. Since then he has guided the company's technology strategy and now provides leadership across the technology function. He was a finalist for the New Zealand Software Developer of the Year Award in 2011.

## // JOHN CHALLIS

**CHIEF REVENUE OFFICER, SYDNEY, AUSTRALIA**

John has 15 years' experience in the Australian corporate travel industry, with operational, technology implementation and sales experience. John has been with Serko for seven years and in that time has managed the sales team to meet the demands of Serko's growth. John specialises in market activation and technical sales for Asia Pacific businesses. Prior to Serko, John worked at Carlson Wagonlit Travel for seven years in various roles and was primarily responsible for technical online booking platform sales to Carlson Wagonlit Travel's existing and prospective clients in Asia Pacific, as well as managing a team of software implementation specialists with a strong focus on Serko's solution.

## // TIM NICHOLS

**CHIEF PRODUCT OFFICER, NEW ZEALAND**

Tim has more than 16 years' experience helping technology companies grow and succeed in a variety of international markets. Most recently, Tim spent two years in San Francisco as Vice President of Corporate for Endace, one of New Zealand's technology success stories. Prior to his time in the US, Tim worked at 2degrees mobile where he was instrumental in defining the brand and market positioning. Tim has also spent time with Vodafone New Zealand, British Telecom and '3' in the UK.

## //TONY STANLEY

**CHIEF CLIENT OFFICER, NEW ZEALAND**

Tony has more than 20 years' experience managing teams and leading profit centres in technology companies (10 years with the Serko product) and travel-related organisations. Tony is responsible for the Client Services Team at Serko where he manages Professional Services and the Customer Support Centre. Tony spent nearly five years at Datacom Group establishing a solid client base with multimillion dollar accounts. Prior to that Tony's travel industry experience included Branch Manager of United Holidays and Operations Manager of Travelplan Holidays.

**DARRIN GRAFTON AND ROBERT (BOB) SHAW** are also part of the executive team.

See facing page for their details.

# OVERVIEW OF PERFORMANCE

### TOTAL INCOME $14.4M UP 22% FROM PREVIOUS YEAR

- Total revenue $13.1m
- Grant income $1.3m

### TOTAL REVENUE $13.1M UP 27% FROM PREVIOUS YEAR

- Serko Online Revenue $10.9m up 49%
- Incharge Revenue $1.3m up 37%
- Billable Services Revenue $0.9m down 55%

### REVENUE MIX 93% FROM RECURRING PRODUCT AND USAGE UP FROM 80% PREVIOUS YEAR

### TRANSACTION GROWTH 54% FROM PREVIOUS YEAR

### ACQUISITION OF ARNOLD 1 MAY 2015 FOR A$100K

- Revenue contribution to Serko Online $1.3m
- Transactions 16% of total
- Migration to Serko Online to complete by September 2016

### EXPENSES FROM ORDINARY ACTIVITIES (EXCLUDING DEPRECIATION/AMORTISATION) $19.8M UP 14% FROM PREVIOUS YEAR

- Salaries/Remuneration $13.9m up 15%
- Other opex (excluding depreciation) $5.9m up 3%

### RESEARCH AND DEVELOPMENT EXPENDITURE $6.3M UP 9%

- Internal (opex) $5.5m
- External (capex) $0.8m

### EMPLOYEES 127 DECREASE OF 6 IN THE YEAR

### CASH RESERVES $7.1M

### NET LOSS BEFORE TAX $5.9M DECREASED FROM $6.4M PREVIOUS YEAR

### EBITDA[1] LOSS $5.4M DECREASED FROM $5.6M PREVIOUS YEAR

### ADDITIONAL NOTES TO ASSIST WITH THE UNDERSTANDING AND INTERPRETATION OF THE FINANCIAL STATEMENTS (FROM PAGE 10):

#### OPERATING REVENUE

Serko Online is the main source of revenue. This is predominantly invoiced to Travel Agent resellers on a monthly basis for the total transactions generated from the online travel bookings made by their end user customer base. Revenue is made up of per transaction fees, ancillary services fees, includes contracted minimum payments where applicable and is stated net of volume-related rebates and discounts.

Serko Incharge is an Expense Management application that allows registered users of corporate customers to process travel and expense claims for accounting and reimbursement. Revenues are derived from a combination of fees for active users, registered users and reports processed.

Billable service revenues are derived from customised software development undertaken on behalf of customers. The basis of charging can vary depending on the contractual terms with the customer, which may specify time and materials, capped or fixed pricing.

#### EXPENSES FROM ORDINARY ACTIVITIES

The classifications of Expenses included in the statement of comprehensive income are as follows:

- Selling and Marketing Expenses comprise all direct costs of sale that are not people or salary related.
- Remuneration and Benefits are the total costs of employees and contractors engaged within the business during the financial year, including gross salary, additional payroll taxes, superannuation and KiwiSaver, bonuses, commissions and the value of any share-based remuneration or awards.
- Administration Expenses are other general overheads and operating costs, including depreciation and amortisation charges.
- Other Expenses comprise direct technology costs, including hosting.

[1] EBITDA is a non GAAP measure representing Earnings or Losses before Interest (net Finance income/cost), Tax, Depreciation, Amortisation and Impairments.

| SELECTED OPERATIONAL METRICS | FY16 | FY15 | FY14 | FY13 |
|---|---|---|---|---|
| Total Revenue Growth (%) | 27% | 55% | 39% | 27% |
| Revenue Growth – Online Booking Services (%) | 49% | 62% | 12% | 41% |
| Operating Costs (excl depreciation & amortisation) growth (%) | 14% | 105% | 62% | 35% |
| No. of transactions (indexed, where FY13=100) | 275 | 179 | 123 | 100 |
| Transaction growth | 54% | 45% | 23% | 35% |
| Product/Recurring revenue as % total revenue | 93% | 80% | 71% | 84% |
| Employees (number at end of year) | 127 | 133 | 87 | 47 |
| Average Revenue per Full-time equivalent (NZ$'000) | 101 | 94 | 100 | 119 |
| Research and Development Costs – Expense and Capex (NZ $000) | 6,268 | 5,762 | 3,387 | 2,340 |

## FINANCIAL METRICS

| NZD $'000 | FY16 ACT AUDITED | FY15 ACT AUDITED | CHANGE % |
|---|---|---|---|
| **Operating Revenue** | **13,122** | **10,361** | **27%** |
| *Serko Online* | *10,916* | *7,342* | *49%* |
| *Serko Incharge* | *1,252* | *911* | *37%* |
| *Services* | *954* | *2,109* | *-55%* |
| Other Income | 1,296 | 1,413 | -8% |
| **TOTAL INCOME** | **14,418** | **11,775** | **22%** |
| Operating Expenses (exc D&A) | (19,784) | (17,324) | 14% |
| **EBITDA (loss)[1]** | **(5,366)** | **(5,549)** | **3%** |
| **Net Loss Before Tax** | **(5,943)** | **(6,433)** | **8%** |
| **Working Capital[2]** | **7,980** | **5,748** | |

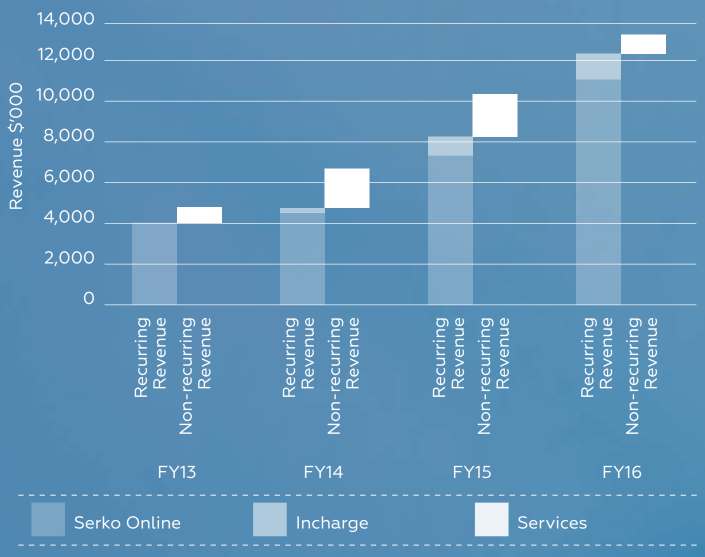
**NOTES:**

[1] EBITDA is a non GAAP measure representing Earnings or Losses before Interest (net Finance income/cost), Tax, Depreciation, Amortisation and Impairments.

Management use EBITDA as a measure of performance as it is a useful indicator and approximation of operating net cash flow in a given period. It excludes expenses or cash flows connected with investment, taxation or capitalisation.

[2] Working Capital is defined as net current assets. Current assets (including cash) less current liabilities.

## REVENUE TREND

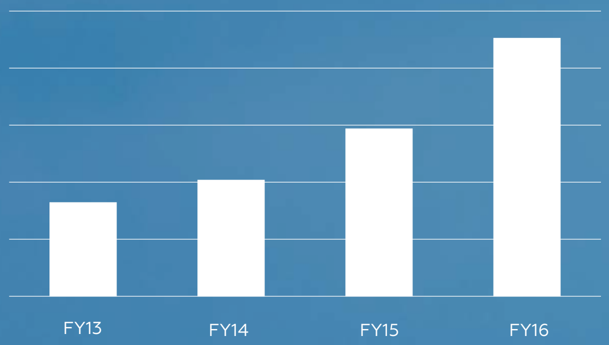



## "REVENUE MIX 93% RECURRING"

In this chart recurring revenues comprise product revenues (i.e. Serko Online and Serko Incharge), and non-recurring revenues comprise Billable Services.

Please refer to the notes on the opposite page for a description of each of those revenue categories.

## ONLINE BOOKING TREND




## "TRANSACTION GROWTH 54% IN FY16 AND 40% CAGR[3] SINCE FY13"

[3] Compound annual growth rate.

# FINANCIAL STATEMENTS

Building a better working world

Chartered Accountants

# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Serko Limited**

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the group financial statements of Serko Limited and its subsidiaries ("the Group") on pages 13 to 42, which comprise the statement of financial position of the Group as at 31 March 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We provide taxation advice and other assurance services to the Group. We have no other relationship with, or interest in, the Group.

Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

## OPINION

In our opinion, the financial statements on pages 13 to 42 present fairly, in all material respects, the financial position of the Group as at 31 March 2016 and the financial performance and cash flows of the Group for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Ernst + Young

25 May 2016

Auckland

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

| | NOTES | GROUP | |
|---|---|---|---|
| | | 2016 | 2015 |
| | | $ | $ |
| Revenue | 4 | 13,121,566 | 10,361,202 |
| Other Income | 4 | 1,296,264 | 1,413,182 |
| **Total revenue & other income** | | **14,417,830** | **11,774,384** |
| Expenses from ordinary activities | 5 | | |
| Selling and marketing expenses | | (1,267,001) | (988,848) |
| Remuneration & benefits | | (13,940,662) | (12,020,829) |
| Administration expenses | | (4,405,230) | (4,690,503) |
| Other expenses | | (1,122,431) | (368,672) |
| | | **(20,735,324)** | **(18,068,852)** |
| Finance income | 5 | 430,140 | 209,382 |
| Finance costs | 5 | (55,832) | (348,218) |
| **Loss before income tax** | | **(5,943,186)** | (6,433,304) |
| Income tax expense | 6 | (290,930) | (114,031) |
| **Net loss for the period** | | **(6,234,116)** | (6,547,335) |
| **Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)** | | | |
| Movement in foreign currency reserve | | (41,721) | 144,247 |
| **Total comprehensive loss for the year** | | **(6,275,837)** | **(6,403,088)** |
| Loss for the year attributable to:<br>Equity holders of the parent | | **(6,234,116)** | (6,547,335) |
| Total comprehensive loss for the year attributable to:<br>Equity holders of the parent | | **(6,275,837)** | (6,403,088) |
| **Earnings per share** | | | |
| ↗ Basic profit (loss) for the year attributable to ordinary equity holders of the parent | 21 | $(0.10) | $(0.10) |
| ↗ Diluted profit (loss) for the year attributable to ordinary equity holders of the parent | 21 | $(0.10) | $(0.10) |

The accompanying notes form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2016

| | NOTE | CONTRIBUTED EQUITY | SHARE-BASED PAYMENT RESERVE | FOREIGN CURRENCY RESERVE | ACCUMULATED LOSSES | TOTAL |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| GROUP | | | | | | |
| **Balance as at 1 April 2015** | | **17,603,575** | **370,875** | **148,606** | **(10,212,663)** | **7,910,393** |
| Net loss for the period | | – | – | – | (6,234,116) | (6,234,116) |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax) | | – | – | (41,721) | – | (41,721) |
| **Total comprehensive loss for the year** | | **–** | **–** | **(41,721)** | **(6,234,116)** | **(6,275,837)** |
| **Transactions with owners** | | | | | | |
| Issue of share capital | 15 | 8,096,000 | – | – | – | 8,096,000 |
| Cancellation of shares in Salary Sacrifice Scheme | 15 | (9,900) | – | – | – | (9,900) |
| Cost of equity issued | 15 | (504,866) | – | – | – | (504,866) |
| Share-based payments | 15 | – | 516,873 | – | – | 516,873 |
| Interest on convertible notes | | – | – | – | – | – |
| **Balance as at 31 March 2016** | | **25,184,809** | **887,748** | **106,885** | **(16,446,779)** | **9,732,663** |
| **Balance as at 1 April 2014** | | **239,835** | **–** | **4,359** | **(3,661,972)** | **(3,417,778)** |
| Net loss for the period | | – | – | – | (6,547,335) | (6,547,335) |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax) | | – | – | 144,247 | – | 144,247 |
| **Total comprehensive loss for the year** | | **–** | **–** | **144,247** | **(6,547,335)** | **(6,403,088)** |
| **Transactions with owners** | | | | | | |
| Convertible notes issued accounted in equity | 15 | 156,644 | – | – | – | 156,644 |
| Transfer of notes to share capital | 15 | (396,479) | – | – | – | (396,479) |
| Issue of share capital | 15 | 19,244,848 | – | – | – | 19,244,848 |
| Cost of equity issued | 15 | (1,641,274) | – | – | – | (1,641,274) |
| Share-based payments | 15 | – | 370,875 | – | – | 370,875 |
| Interest on convertible notes | | – | – | – | (3,356) | (3,356) |
| **Balance as at 31 March 2015** | | **17,603,575** | **370,875** | **148,606** | **(10,212,663)** | **7,910,393** |

The accompanying notes form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

| | NOTES | GROUP | |
|---|---|---|---|
| | | 2016 | 2015 |
| | | $ | $ |
| **Current assets** | | | |
| Cash at bank and on hand | 11 | 7,117,622 | 4,486,952 |
| Receivables | 7 | 3,968,520 | 3,417,736 |
| Derivative financial instruments | 8 | 5,405 | 116,828 |
| | | **11,091,546** | **8,021,516** |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 612,679 | 997,278 |
| Intangible assets | 10 | 1,439,224 | 1,287,342 |
| | | **2,051,903** | **2,284,620** |
| **Total assets** | | **13,143,449** | **10,306,136** |
| **Current liabilities** | | | |
| Trade and other payables | 12 | 2,556,927 | 1,662,352 |
| Income tax payable | | 314,884 | 180,736 |
| Interest-bearing loans and borrowings | 14 | 344,133 | 314,038 |
| | | **3,215,944** | **2,157,126** |
| **Non-current liabilities** | | | |
| Deferred tax liability | 6 | 57,860 | 60,311 |
| Trade and other payables | 12 | 136,982 | 174,202 |
| Interest-bearing loans and borrowings | 14 | – | 4,104 |
| | | **194,842** | **238,617** |
| **Total liabilities** | | **3,410,786** | **2,395,743** |
| **Equity** | | | |
| Contributed equity | 15 | 25,184,809 | 17,603,575 |
| Share-based payment reserve | 15 | 887,748 | 370,875 |
| Foreign currency reserve | | 106,885 | 148,606 |
| Retained earnings – accumulated (deficit) | | (16,446,779) | (10,212,663) |
| **Total equity** | | **9,732,663** | **7,910,393** |
| **Total equity and liabilities** | | **13,143,449** | **10,306,136** |

For and on behalf of the Board who authorised these financial statements for issue on 25 May 2016.

S J Botherway

**Simon Botherway**
Chairman

**Darrin Grafton**
Chief Executive Officer

The accompanying notes form part of these financial statements.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2016

| | NOTE | GROUP | |
|---|---|---|---|
| | | 2016 | 2015 |
| | | $ | $ |
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 12,464,132 | 9,435,812 |
| Interest received | | 78,178 | 180,576 |
| Receipts from grants | | 1,381,800 | 1,529,836 |
| Taxation (paid)/refund received | | (213,877) | (59,436) |
| Payments to suppliers and employees | | (18,161,444) | (17,282,736) |
| Interest payments | | (34,754) | (392,550) |
| Net GST refunded (paid) | | 34,008 | (49,300) |
| **Net cash flows used in operating activities** | | **(4,451,957)** | **(6,637,798)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (64,760) | (655,634) |
| Purchase of intangibles | | (677,676) | (782,695) |
| **Net cash flows used in investing activities** | | **(742,436)** | **(1,438,329)** |
| **Cash flows from financing activities** | | | |
| Share issue | | 8,096,000 | 17,514,738 |
| Cost of new share issue | | (470,128) | (1,361,911) |
| Repayment of shareholder loans | | – | (1,819,270) |
| Repayment of loans | | – | (780,000) |
| **Net cash flows from financing activities** | | **7,625,872** | **13,553,557** |
| Net increase (decrease) in total cash | | 2,431,479 | 5,477,430 |
| Net foreign exchange difference | | 199,191 | (48,965) |
| Cash and cash equivalents at beginning of period | | 4,486,952 | (941,513) |
| Cash and cash equivalents at end of period | | **7,117,622** | **4,486,952** |
| Cash and cash equivalents comprises the following: | | | |
| Cash at bank and on hand | 11 | 7,117,622 | 4,486,952 |
| | | **7,117,622** | **4,486,952** |

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

## 1 CORPORATE INFORMATION

The financial statements of Serko Limited ('the company') and subsidiaries ('the group') were authorised for issue in accordance with a resolution of directors.

The company is a limited liability company domiciled and incorporated in New Zealand under the Companies Act 1993. Its registered office is at Unit 14d, 125 The Strand, Parnell, Auckland.

The group is involved in the provision of computer software solutions for corporate travel. The group is headquartered in Auckland, New Zealand.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and within this notes section. These policies have been consistently applied to all the years presented, unless otherwise stated.

### a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993. The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain assets and liabilities as identified in specific accounting policies.

The group is required to report in accordance with Tier 1 for-profit accounting standards. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar unless stated otherwise.

### b) Going Concern

The directors have carefully considered the ability of the group to continue to operate as a going concern for at least the next 12 months from the date the financial statements are authorised for issue. It is the conclusion of the directors that the group will continue to operate as a going concern and the financial statements have been prepared on that basis. In reaching their conclusion, the directors have considered the following factors:

- The $8.1m capital raise completed between December 2015 and February 2016 provides a sufficient level of headroom to help support the business for at least the next twelve months
- The FY17 budget has been prepared to achieve monthly break-even and positive net cash flow by the end of the financial year
- The directors have made due enquiry into the appropriateness of the assumptions underlying the budgetary forecasts
- In approving the FY17 budget, the directors have considered detailed contingency plans presented by the management that can be implemented in the event that adverse variances in performance versus budget exceed certain thresholds.

A number of significant judgements have been made in preparing the budget for FY17, the most significant relate to the timing and level of uptake of demand for new products and services that are expected to launch or grow significantly during the year. However, in view of the contingencies and risk mitigations that have been identified, the directors consider there is a reasonable expectation that the group can continue to operate as a going concern for the foreseeable future.

### c) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as appropriate for profit-oriented entities.

### d) New accounting standards and interpretations

*NZ IFRS standards that have recently been issued or amended but are not yet effective and have not been adopted by the Group are:*

NZ IFRS 9 Financial Instruments, effective for accounting periods beginning on or after 1 January 2017 is replacing NZ IAS39 Financial Instruments: Recognition and Measurement.

NZ IFRS 15 Revenue Recognition, effective for accounting periods beginning on or after 1 January 2018.

NZ IFRS 16 Leases, effective for accounting periods beginning on or after 1 January 2019.

The group is still assessing the impact of the above standards issued and not yet effective and the current impact is not known.

### e) Basis of consolidation

The consolidated financial statements comprise the financial statements of Serko Limited and subsidiaries as at and for the year ended 31 March each year.

Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights.

The group reassesses whether or not it controls an investee if facts and circumstances indicate there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the group had directly disposed of the related assets or liabilities.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. Acquisition-related costs are expensed as incurred and recognised in profit or loss.

The difference between the above items and the fair value of the consideration is recorded as either goodwill or gain on bargain purchase. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is tested annually for impairment, or immediately if events or changes in circumstances indicate that it might be impaired, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Any gain on bargain purchase is recognised immediately on acquisition to profit and loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Non-controlling interests are allocated their share of comprehensive income after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

### f) Foreign currency translation

#### I) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in these financial statements are measured using the currency of the primary economic environment in which the group operates ('the functional currency'). These financial statements are presented in New Zealand dollars, which is the group's presentation and functional currency.

#### II) TRANSACTIONS AND BALANCES

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at balance date. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss.

### g) Financial instruments

Financial assets in the scope of NZ IAS 39 Financial Instruments: Recognition and Measurement are classified as either loans and receivables or available-for-sale financial assets. When financial assets are recognised initially they are measured at fair value plus directly attributable transaction costs. The group determines the classification of its financial assets on initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

#### I) LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of selling the receivable. Such assets are subsequently carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The group's loans and receivables comprise trade receivables, loans and GST receivable.

The group has no financial assets classified as available for sale.

#### II) FINANCIAL LIABILITIES

Financial liabilities are classified as 'other financial liabilities'. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest method.

The effective interest method calculates the amortised cost of a financial liability and allocates the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period to the net carrying amount of the liability.

Financial liabilities are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

##### III) IMPAIRMENT OF FINANCIAL ASSETS

The group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### IV) FINANCIAL ASSETS CARRIED AT AMORTISED COST

For financial assets carried at amortised cost, the group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate (EIR).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the income statement. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

### h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is one that takes six months or longer to prepare for its intended use or sale. Other borrowing costs are expensed when incurred.

### i) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable. All receivables and payables are stated GST inclusive.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures.

### Judgements

In the process of applying the group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

##### SHARE-BASED PAYMENTS

The group measured the fair value of the first tranche of shares granted under the restricted share plan in June 2014 to employees using the listing price (Initial Public Offering on 24 June 2014) of the shares when granted. Management considered this a reasonable basis of fair value, given that the grant date and listing date were concurrent. The fair value applied to subsequent shares granted under the restricted share plan is the volume weighted average price (VWAP) of shares traded in the previous 20 trading days preceding the date of grant. Vesting of the shares is reviewed periodically to determine that the assumptions around vesting dates and employees who have left or joined the group are still valid.

##### DEVELOPMENT COSTS

Development costs of a project are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates applied and the expected period of benefits. At 31 March 2016, the carrying amount of capitalised development costs was $407,019 (2015: $85,526).

This amount includes significant investment in the development of an innovative mobile application for Serko's corporate travel platform and a small to medium enterprise (SME) application.

#### FUNCTIONAL CURRENCY

The group periodically reviews the functional currency for reporting purposes. Based on the assessment of the NZ IAS21 criteria, management believes that there is sufficient justification for the continued use of NZD as the functional currency. The key factors behind this conclusion are:

a) Serko is NZX listed and has raised capital in NZD
b) Research and development grant funding is in NZD
c) NZD is the main currency for labour, operating cost and capital expenditure.

#### IMPAIRMENT OF INTANGIBLE OR NON-FINANCIAL ASSETS

Management reviews the carrying value of intangible and non-financial assets on an annual basis and in accordance with NZ IAS 36. Consideration is placed on a number of factors, depending on the specific asset in question, which may include discounted cash flow forecasts, the ability to continue to generate discrete cash flow and returns, any changes or anticipated changes in the business or product circumstances and the nature of the events that originally gave rise to the recognition of any non-financial assets. Further details are disclosed in note 10 of the financial statements in respect of the specific adjustments and entries reflected in the 2016 financial year.

## 4 REVENUE & OTHER INCOME

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is disclosed net of credit notes, rebates and discounts.

#### I) REVENUE FROM TRANSACTION AND USAGE FEES

Revenue from transaction and usage fees is recorded at the time travel or expense transactions are processed through Serko's platforms.

#### II) REVENUE FROM INSTALLATION SERVICES

Revenue from a contract to provide installation services is recognised by reference to the stage of completion of the contract at balance date. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of expenses recognised that are recoverable.

#### III) INTEREST REVENUE

Revenue 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.

#### IV) GOVERNMENT GRANTS

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs it is intended to compensate. When the grant relates to an asset, the fair value is credited to deferred income and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

| | NOTE | GROUP | |
|---|---|---|---|
| | | 2016 | 2015 |
| Revenue – transaction and usage fees | | 11,829,990 | 8,145,613 |
| Revenue – installation services | | 965,034 | 2,065,894 |
| Other | | 326,542 | 149,695 |
| **Total operating revenue** | | **13,121,566** | **10,361,202** |
| *Other income* | | | |
| Government grants | 13 | 1,296,264 | 1,413,182 |
| | | **1,296,264** | **1,413,182** |

## 5 EXPENSES

| | NOTES | GROUP 2016 | GROUP 2015 |
|---|---|---|---|
| **Operating loss before taxation includes the following expenses:** | | | |
| Auditor remuneration and advisory fees | | 99,197 | 471,813 |
| Bad and doubtful debts written off | 7 | – | 14,867 |
| Amortisation of intangibles | 10 | 486,369 | 273,166 |
| Impairment of intangibles | 10 | 219,521 | – |
| Depreciation | 9 | 245,819 | 185,045 |
| Rental and operating lease expenses | | 658,413 | 427,747 |
| Employee & contractor remuneration | | 12,714,653 | 11,270,807 |
| Contributions to defined contribution plans | | 496,076 | 342,905 |
| Share-based payment expenses | 15 | 516,873 | 370,875 |
| IPO-related costs | | – | 482,728 |
| Other operating expenses | | 5,298,403 | 4,228,900 |
| Expenses from ordinary activities | | **20,735,324** | **18,068,852** |
| *Research expenses (excluding capitalised development costs)* | | 5,513,973 | 5,148,637 |

Research expenditure includes all reasonable expenditure associated with R&D activities that does not give rise to an intangible asset. R&D expenses include employee & contractor remuneration related to these activities.

Research expenditure includes expenditure that meets the definition of research expenditure as defined in NZ IAS 38.

*Finance income and expenses includes:*

| | 2016 | 2015 |
|---|---|---|
| *Finance income* | | |
| – Interest received | 117,260 | 208,712 |
| – Dividends received | 1,035 | 670 |
| – Foreign exchange (gains)/losses – net | 311,845 | – |
| **Total finance income** | **430,140** | **209,382** |
| *Finance expenses* | | |
| Foreign exchange losses – net | – | (196,046) |
| Interest expense | (55,088) | (121,320) |
| Other finance expenses | (744) | (30,852) |
| **Total finance expenses** | **(55,832)** | **(348,218)** |
| **Total finance income and expenses** | **374,308** | **(138,836)** |

## 5 EXPENSES – CONTINUED

### AUDITOR REMUNERATION

The directors of Serko Limited appointed Ernst & Young as the auditor of the group for the year ended 31 March 2016.

Amounts received or due and receivable by:

| | GROUP 2016 | GROUP 2015 |
|---|---|---|
| *Ernst & Young* | | |
| – Audit of financial statements | 58,450 | 53,350 |
| – Other assurance-related services (a) | 11,298 | 106,000 |
| **Total audit fees** | **69,748** | 159,350 |
| – Tax services (b) | 29,449 | 82,213 |
| – Advisory services (c) | – | 230,250 |
| **Total non-audit fees** | **29,449** | **312,463** |

(a) Other assurance-related services include services for research and development assurance procedures and half year agreed upon procedures (2015: IPO statutory audit fees and research and development assurance procedures).

(b) Tax services relate to compliance and other advisory services.

(c) Advisory services include transaction advisory services related to the IPO in 2015.

## 6 INCOME TAX

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except for a deferred income tax liability arising from the initial recognition of goodwill;
- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carry-forward of unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) relevant to the appropriate tax jurisdiction that have been enacted or substantively enacted at the balance date.

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| **Statement of comprehensive income** | | |
| *Current income tax* | | |
| Current income tax charge/(credit) | 272,483 | 198,842 |
| Adjustments in respect of previous years | 87,215 | – |
| | **359,698** | **198,842** |
| *Deferred income tax* | | |
| Origination and reversal of temporary differences | (2,451) | (84,811) |
| Adjustments in respect of previous years | (66,318) | – |
| | **(68,769)** | **(84,811)** |
| **Income tax expense reported in the statement of comprehensive income** | **290,930** | **114,031** |
| The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows: | | |
| Accounting profit (loss) before income tax | **(5,943,186)** | **(6,433,304)** |
| At the statutory income tax rate of 28% (2015: 28%) | (1,664,092) | (1,801,325) |
| – Non-deductible items | 82,711 | 17,250 |
| – Adjustments in respect of current income tax of previous years | 20,898 | |
| – Chinese branch tax | 62,369 | 22,739 |
| – Foreign tax credits not utilised | 12,949 | 11,155 |
| – Future income tax benefit, not recognised | 1,768,250 | 1,859,076 |
| – Effect of tax on overseas subsidiaries at different rate | 7,846 | 5,136 |
| | **290,930** | **114,031** |
| At effective income tax rate of: | -4.90% | -1.77% |

## 6 INCOME TAX – CONTINUED

### Deferred income tax

Deferred income tax at 31 March relates to the following:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | STATEMENT OF FINANCIAL POSITION | STATEMENT OF COMPREHENSIVE INCOME | STATEMENT OF FINANCIAL POSITION | STATEMENT OF COMPREHENSIVE INCOME |
| **GROUP** | | | | |
| *Deferred income tax liabilities recognised* | | | | |
| Intangibles | (71,161) | 29,316 | (100,477) | 63,833 |
| Unrealised foreign exchange | (65,780) | (65,780) | – | – |
| *Deferred income tax asset recognised* | | | | |
| Employee entitlements | 79,081 | 38,915 | 40,166 | 20,978 |
| *Net deferred tax asset/(liability) recognised* | **(57,860)** | **2,451** | **(60,311)** | **84,811** |
| *Deferred income tax asset not recognised* | | | | |
| Employee entitlements | 103,249 | (19,996) | 123,245 | 47,603 |
| Long term incentive fair value adjustment | 340,986 | 226,993 | 113,993 | 113,993 |
| Accruals | 28,000 | (11,204) | 39,204 | 4 |
| Allowance for impairment | 2,080 | (15,765) | 17,845 | (16,536) |
| Deferred revenue | 13,416 | (2,051) | 15,467 | 23,673 |
| | **487,731** | **177,977** | **309,754** | **168,737** |
| Tax losses available to be carried forward and offset against future income | 3,778,906 | | 2,591,362 | |
| *Total deferred tax asset not recognised* | **4,266,637** | | **2,901,116** | |

The ability to carry losses forward is subject to confirmation by taxation authorities.

## 7 RECEIVABLES

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectibility of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. A provision for impairment of receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivable, changes in credit quality and past default experience.

The impairment, and any subsequent movement including recovery, is recognised in the statement of comprehensive income.

| | NOTE | GROUP | |
|---|---|---|---|
| | | 2016 | 2015 |
| Trade receivables | | 3,338,565 | 2,774,993 |
| Allowance for impairment | | (7,429) | (63,733) |
| **Trade receivables (net)** | | 3,331,136 | 2,711,260 |
| GST receivable | | 53,753 | 19,745 |
| Prepayments | | 248,587 | 352,605 |
| nuTravel Loan receivable | 17 | 335,044 | 292,416 |
| Other loans | | – | 41,710 |
| Total receivables | | **3,968,520** | **3,417,736** |

#### FOREIGN CURRENCY RISK

The carrying amounts of the group's receivables are denominated in the following currencies:

| | | |
|---|---|---|
| New Zealand dollars | 1,759,658 | 1,549,407 |
| Australian dollars | 1,744,784 | 1,493,119 |
| Singapore dollars | – | 382 |
| US dollars | 458,837 | 374,828 |
| Indian rupees | 5,241 | – |
| | **3,968,520** | **3,417,736** |

#### ALLOWANCE FOR IMPAIRMENT LOSS

Trade receivables are non-interest bearing and are generally on 30–60-day terms. A provision for impairment loss is recognised where there is objective evidence that an individual trade receivable is impaired. No impairment loss has been recognised (2015: $14,867) by the group in the current year. No individual amount within the impairment allowance is material.

At 31 March, the ageing analysis of trade receivables is as follows:

| | TOTAL | 0 – 30 DAYS | 31 – 60 DAYS | 61 – 90 DAYS | 91+ DAYS |
|---|---|---|---|---|---|
| **2016 group** | **3,338,565** | **2,697,473** | **247,045** | **83,145** | **310,901** |
| 2015 group | 2,774,993 | 2,236,358 | 228,182 | 204,744 | 105,708 |

Group receivables over 60 days of $394,046 (2015: $310,452) include a provision for impairment of $7,429. The balance of $386,617 is not considered impaired as amounts outstanding are in accordance with agreed payment plans and payment record of the customers concerned.

#### NUTRAVEL LOAN RECEIVABLE

On 9 April 2014 an interest-bearing loan to nuTravel Technology Solutions LLC of US$200,000 was assigned by Financial Equities Limited to Serko Limited in return for an interest-bearing loan repayable on receipt of the loan receivable. The loan expires on 30 June 2016. Financial Equities Limited is a company associated with directors Robert Shaw and Darrin Grafton.

## 8 FINANCIAL INSTRUMENTS

#### DERIVATIVE FINANCIAL INSTRUMENTS

The group uses derivatives in the form of forward exchange contracts (FECs) to reduce the risk that movements in the exchange rate will affect the group's New Zealand dollar cash flows. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

#### FAIR VALUE HEDGES

The change in fair value of a hedging derivative is recognised in the statement of comprehensive income as finance costs. The change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of comprehensive income as finance costs.

The following table presents the group's foreign currency forward exchange contracts measured at fair value:

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| **Current:** | | |
| Foreign currency forward exchange contracts | 5,405 | 116,828 |
| **Contractual amounts of forward exchange contracts outstanding were as follows:** | | |
| Purchase commitments forward exchange contracts | 4,163,003 | 1,745,638 |

Derivative Financial Instruments have been determined to be within level 2 of the fair value hierarchy. Foreign currency forward exchange contracts have been fair valued using published market foreign exchange rates.

## 9 PROPERTY, PLANT AND EQUIPMENT

All items of property, plant and equipment are recorded at cost less accumulated depreciation and impairment. Initial cost includes purchase consideration and those costs attributable to bringing the asset to the location and condition necessary for its intended use. Where an item is self-constructed, its construction cost includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and if that expenditure would have been included in the initial cost of the item had it been incurred at that time. The carrying amount of any replaced part is derecognised.

All other repairs and maintenance expenditure is recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The residual value of assets is reviewed and adjusted if appropriate at each balance date. The following estimates have been used:

- Leasehold improvements 7%
- Furniture and fittings 8.5 – 80.4%
- Computer equipment 17.5 – 67%

#### I) IMPAIRMENT

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

## 9 PROPERTY, PLANT AND EQUIPMENT – CONTINUED

### II) DISPOSAL

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

| | LEASEHOLD IMPROVEMENT | FURNITURE & FITTINGS | COMPUTER EQUIPMENT | TOTAL |
|---|---|---|---|---|
| GROUP 2016 | | | | |
| **Cost or valuation** | | | | |
| Balance at 1 April 2015 | 529,469 | 377,010 | 480,132 | 1,386,611 |
| Additions | 14,617 | 6,833 | 34,877 | 56,327 |
| Disposals | (250,618) | (42,364) | (130,976) | (423,957) |
| Currency translation | 2,865 | 1,891 | 3,676 | 8,432 |
| **Balance at 31 March 2016** | **296,333** | **343,370** | **387,710** | **1,027,413** |
| **Depreciation** | | | | |
| Balance at 1 April 2015 | 69,844 | 99,968 | 219,521 | 389,333 |
| Depreciation expense | 35,122 | 44,204 | 166,493 | 245,819 |
| Disposals | (56,473) | (38,584) | (129,593) | (224,649) |
| Currency translation | 239 | 574 | 3,418 | 4,231 |
| **Balance at 31 March 2016** | **48,732** | **106,162** | **259,839** | **414,734** |
| **Net carrying amount** | **247,601** | **237,208** | **127,870** | **612,679** |
| GROUP 2015 | | | | |
| **Cost or valuation** | | | | |
| Balance at 1 April 2014 | 228,348 | 170,694 | 177,570 | 576,612 |
| Additions | 302,636 | 207,140 | 302,562 | 812,338 |
| Disposals | – | – | – | – |
| Currency translation | (1,515) | (824) | | (2,339) |
| **Balance at 31 March 2015** | **529,469** | **377,010** | **480,132** | **1,386,611** |
| **Depreciation** | | | | |
| Balance at 1 April 2014 | 42,128 | 52,128 | 110,322 | 204,578 |
| Depreciation expense | 27,767 | 48,079 | 109,199 | 185,045 |
| Disposals | – | – | – | – |
| Currency translation | (51) | (239) | – | (290) |
| **Balance at 31 March 2015** | **69,844** | **99,968** | **219,521** | **389,333** |
| **Net carrying amount** | **459,625** | **277,042** | **260,611** | **997,278** |

The net book value of assets held under finance leases is $2,719 (2015: $10,877).

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| | CENTS | CENTS |
| **Tangible assets per security** | 0.95 | 1.59 |

Tangible assets per security are expressed in cents; prior year was previously reported in dollars.

## 10 INTANGIBLES

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

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. An intangible asset with an indefinite useful life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

A summary of the policies applied to the group's intangible assets is as follows:

| | |
|---|---|
| Computer Software | – finite, amortised on a straight-line basis 40 – 60% |
| Capitalised software development costs | – finite, amortised on 5 years straight-line |
| Incharge software | – finite, amortised on 3 years straight-line |
| Customer contracts | – finite, amortised on 3 years straight-line |
| Key employee retention | – finite, amortised on 3 years straight-line |

#### RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an internal project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset. Also, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and impairment losses. Any expenditure capitalised is amortised over the period of expected benefit from the related project.

Intangible assets under development at balance date are recorded as capital work in progress and are not subject to amortisation.

### Impairment of non-financial assets

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

| | GOODWILL | KEY EMPLOYEE RETENTION | CUSTOMER CONTRACTS | DEVELOPMENT – WORK IN PROGRESS | COMPUTER SOFTWARE | TOTAL |
|---|---|---|---|---|---|---|
| **GROUP 2016** | | | | | | |
| **Cost** | | | | | | |
| Balance at 1 April 2015 | 171,025 | 71,261 | 305,402 | 85,526 | 1,013,183 | 1,646,397 |
| Additions | 33,261 | – | 110,869 | 558,154 | 110,416 | 812,700 |
| Transfer of cost | – | – | – | (236,661) | 236,661 | – |
| Currency translation | 15,235 | 6,348 | 27,206 | – | 17,230 | 66,019 |
| **Balance at 31 March 2016** | **219,521** | **77,609** | **443,477** | **407,019** | **1,377,491** | **2,525,116** |
| **Amortisation and impairment** | | | | | | |
| Balance at 1 April 2015 | – | 29,395 | 125,978 | – | 203,681 | 359,055 |
| Amortisation | – | 25,611 | 143,298 | – | 317,460 | 486,369 |
| Impairment | 219,521 | – | – | – | – | 219,521 |
| Currency translation | – | 2,619 | 11,222 | – | 7,107 | 20,948 |
| **Balance at 31 March 2016** | **219,521** | **57,625** | **280,498** | **–** | **528,248** | **1,085,893** |
| **Net carrying amount** | **–** | **19,984** | **162,979** | **407,019** | **849,242** | **1,439,224** |
| **GROUP 2015** | | | | | | |
| **Cost** | | | | | | |
| Balance at 1 April 2014 | 182,529 | 76,054 | 325,945 | 82,650 | 290,557 | 957,735 |
| Additions | – | – | – | 530,979 | 207,534 | 738,513 |
| Transfer of cost | – | – | – | (528,103) | 528,103 | – |
| Currency translation | (11,504) | (4,793) | (20,543) | – | (13,011) | (49,851) |
| **Balance at 31 March 2015** | **171,025** | **71,261** | **305,402** | **85,526** | **1,013,183** | **1,646,397** |
| **Amortisation and impairment** | | | | | | |
| Balance at 1 April 2014 | – | 6,275 | 26,890 | – | 55,888 | 89,053 |
| Amortisation | – | 23,516 | 100,783 | – | 148,867 | 273,166 |
| Impairment | – | – | – | – | – | – |
| Currency translation | – | (396) | (1,695) | – | (1,074) | (3,164) |
| **Balance at 31 March 2015** | **–** | **29,395** | **125,978** | **–** | **203,681** | **359,055** |
| **Net carrying amount** | **171,025** | **41,865** | **179,424** | **85,526** | **809,502** | **1,287,342** |

During the year the goodwill arising from the acquisition of Incharge and Arnold was impaired. The goodwill was related to the deferred tax liability recognised on acquisition, and does not accurately reflect the true value of the businesses acquired.

## 11 CASH AT BANK AND ON HAND

Cash and short-term deposits in the statement of financial position comprise cash at bank, and in hand, short-term highly liquid investments with an original maturity of three months or less.

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| Cash at bank – New Zealand dollar balances | 5,812,458 | 2,925,176 |
| Cash at bank – foreign currency balances | 1,305,164 | 1,561,776 |
| | **7,117,622** | **4,486,952** |

#### FOREIGN CURRENCY RISK

The carrying amounts of the group's cash at bank and on hand are denominated in the following currencies

| | | |
|---|---|---|
| New Zealand dollars | 5,810,278 | 2,925,176 |
| Australian dollars | 1,265,606 | 1,561,679 |
| US dollars | 39,558 | 97 |
| Indian rupees | 2,180 | – |
| | **7,117,622** | **4,486,952** |

## 12 TRADE AND OTHER PAYABLES

#### EMPLOYEE BENEFITS

Liabilities for wages and salaries, including non-monetary benefits, long service leave and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for wages and salaries that are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the group in respect of services provided by employees up to the reporting date.

#### POST-EMPLOYMENT BENEFITS

Contributions made on behalf of eligible employees to defined contribution funds are recognised in the period they are incurred. The defined contribution funds receive fixed contributions from the group whose legal or constructive obligation is limited to these contributions only.

#### TRADE AND OTHER PAYABLES

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services.

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| Trade payables | 847,779 | 565,076 |
| Accrued expenses | 1,039,578 | 565,244 |
| Lease incentive | 174,202 | 266,076 |
| Holiday pay accrual | 632,350 | 440,159 |
| **Total trade and other payables** | **2,693,909** | **1,836,555** |
| Disclosed as: | | |
| Current | 2,556,927 | 1,662,353 |
| Non-current | 136,982 | 174,202 |
| | **2,693,909** | **1,836,555** |

## 13 GOVERNMENT GRANTS

Government grants are received for direct reimbursement of expenses to assist with research and development of software solutions to improve service delivery and develop new enhancements to existing platforms.

There are no unfulfilled conditions or contingencies attached to these grants.

## 14 INTEREST-BEARING LOANS AND BORROWINGS

| | NOTE | GROUP | |
|---|---|---|---|
| | | 2016 | 2015 |
| *Current* | | | |
| Financial equities loan payable | 17 | 335,044 | 292,416 |
| Obligations under finance leases | | 9,089 | 6,451 |
| Leasehold fitout loan | | – | 15,171 |
| | | **344,133** | **314,038** |
| *Non-current* | | | |
| Obligations under finance leases | | – | – |
| Leasehold fitout loan | | – | 4,104 |
| | | **–** | **4,104** |

During the current and prior years, there were no defaults or breaches on any of the loans.

In the prior year the bank loan of $780,000 to finance the acquisition of assets of Incharge Pty Limited was fully repaid.

Related party loans from shareholders were repaid in the prior year. Shareholders issued a demand for interest in the prior year of $40,841. The loans were unsecured.

The leasehold fitout loan was repaid during the year.

Finance leases are secured over the assets specified in the leases.

## 15 EQUITY

Ordinary share capital is recognised at the fair value of the consideration received. Transaction costs relating to the listing of new ordinary shares and the simultaneous sale and listing of existing shares are allocated to those transactions on a proportional basis.

Transaction costs relating to the sale and listing of existing shares are not considered costs of an equity instrument as no equity instrument is issued and consequently, costs are recognised as an expense in the statement of comprehensive income when incurred. Transaction costs relating to the issue of new share capital are recognised directly in equity as a reduction of the share proceeds received.

| | GROUP | | GROUP | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | NUMBER OF SHARES | NUMBER OF SHARES |
| *Ordinary shares and Share-Based Payments* | | | | |
| Share capital at beginning of year | 17,974,450 | – | 62,699,382 | 16,660 |
| Shares issued for the benefit of convertible note holders | – | 156,644 | – | 217 |
| Shares issued to management paid up prior to IPO | – | 1,000 | – | – |
| Subdivision of shares prior to IPO | – | 241,505 | – | 43,492,498 |
| Issue of shares pursuant to IPO | – | 17,000,000 | – | 15,454,545 |
| Issue of shares pursuant to institutional capital placement | 8,000,000 | – | 9,523,809 | – |
| Issue of shares pursuant to Share Purchase Plan (SPP) placement | 96,000 | – | 114,277 | – |
| Issue of new shares in lieu of advisory fees | – | 363,400 | – | 330,364 |
| Issue of share options to non-exec directors | – | 80,758 | – | 590,909 |
| Convertible notes converted to shares at IPO | – | 1,325,000 | – | 1,490,625 |
| Issue of new shares to staff via Salary Sacrifice Scheme | – | 157,300 | – | 143,000 |
| Issue of new shares to employees via Restricted Share Scheme | 516,873 | 290,117 | 565,874 | 1,180,564 |
| Cancellation of shares under Salary Sacrifice Scheme | (9,900) | – | (9,000) | – |
| Transaction costs for issue of new shares | (504,866) | (1,641,274) | – | – |
| **Share capital at end of year** | **26,072,557** | **17,974,450** | **72,894,342** | **62,699,382** |
| *Convertible notes* | | | | |
| Convertible notes at beginning of year | – | 239,835 | – | 5,902 |
| Convertible notes issued during the year | – | 156,644 | – | 217 |
| Convertible notes converted to shares | – | (396,479) | – | (6,119) |
| **Convertible notes at end of year** | **–** | **–** | **–** | **–** |
| **Total equity at end of year** | **26,072,557** | **17,974,450** | **72,894,342** | **62,699,382** |

In the current year an institutional capital placement was completed in December 2015, which raised an additional $8m of issued capital. In addition, a SPP placement was completed in February 2016, which raised an additional $96,000 of issued capital.

In the current year the group issued 271,352 shares under the Restricted Share Scheme (RSS). In respect of the RSS, as at 31 March, 41,662 restricted shares had been allocated to key management personnel and 229,690 allocated to other Serko employees. At 31 March 2016, 466,936 restricted shares remain unallocated.

In the prior year the group raised $17 million of issued capital via an Initial Public Offering and concurrent listing on the NZX Main Board on 24 June 2014.

In the prior year the group issued 143,000 shares under a Salary Sacrifice Scheme (SSS) and 1,180,564 under a Restricted Share Scheme (RSS). In respect of the RSS, 775,000 restricted shares had been allocated to key management personnel and 246,650 allocated to other Serko employees. In the prior year 158,914 shares remained unallocated.

## 16 COMMITMENTS

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

#### I) FINANCE LEASES

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

#### II) OPERATING LEASES

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| **a) Operating lease commitments** | | |
| No later than one year | 432,148 | 426,825 |
| Later than one year and not later than five years | 1,104,908 | 1,529,367 |
| Later than five years | – | – |
| | **1,537,056** | **1,956,192** |
| **b) Finance lease commitments** | | |
| No later than one year | 8,198 | 9,837 |
| Later than one year and not later than five years | – | 8,198 |
| Later than five years | – | – |
| Total minimum lease payments | **8,198** | **18,035** |
| Less amounts representing finance charges | **(274)** | **(1,226)** |
| Present value of minimum lease payments | **7,924** | **16,809** |

The group entered into a new operating lease agreement related to the head office in Auckland, NZ after balance date.

## 17 RELATED PARTIES

### a) Subsidiaries

The consolidated financial statements include the financial statements of Serko Limited and subsidiaries as listed in the following table:

| | | % EQUITY INTEREST | | INVESTMENT (PARENT) $ | |
|---|---|---|---|---|---|
| NAME | BALANCE DATE | 2016 | 2015 | 2016 | 2015 |
| Serko Australia Pty Limited | 31 March | 100% | 100% | 1,247 | 1,247 |
| Travelog World for Windows Pty Limited | 31 March | 0% | 0% | – | – |
| Serko Trustee Limited | 31 March | 100% | 100% | 100 | 100 |
| Serko India Private Limited | 31 March | 99% | 99% | 2,118 | 2,118 |
| Serko Investments Limited | 31 March | 100% | 100% | 100 | 100 |
| | | | | **3,565** | **3,565** |

Serko Australia Pty Limited's principal business is the marketing and support of travel booking software solutions supplied by Serko Limited. This entity has been consolidated based on audited management accounts for the year ended 31 March each year. In the prior year the company sold its shares in Travelog World for Windows Pty Limited (dormant company) for consideration of $10 to Empeiria Limited. Empeiria Limited is a company associated with directors Robert Shaw and Darrin Grafton.

Serko Trustee Limited was incorporated in the prior year to hold the shares issued to key management and staff in the Restricted Share Scheme and Salary Sacrifice Scheme in trust until vesting.

Serko India Private Limited was incorporated on 18 February 2015 as a subsidiary for the Indian-based operations.

Serko Investments was incorporated on 5 November 2014 as a holding company. It holds 1% of the shares in Serko India Private Limited.

### b) Transactions with related parties

The following table provides the total amount of transactions that have been entered into with related parties, excluding key management and director remuneration.

| | NOTE | | PURCHASES FROM RELATED PARTIES | INTEREST TO RELATED PARTIES | AMOUNTS OWED TO RELATED PARTIES | AMOUNTS OWED BY RELATED PARTIES |
|---|---|---|---|---|---|---|
| | | | $ | $ | $ | $ |
| **Other related parties** | | | | | | |
| Financial Equities Limited | 14 | 2016 | – | 20,334 | 335,044 | – |
| | | 2015 | – | 24,780 | 292,416 | – |
| Simon Botherway – Chairman | | 2016 | 70,000 | – | – | – |
| | | 2015 | 64,167 | – | – | – |
| Clyde McConaghy – Non-executive Director | | 2016 | 60,406 | – | – | – |
| | | 2015 | 54,252 | – | – | – |
| Claudia Batten– Non-executive Director | | 2016 | 60,406 | – | – | – |
| | | 2015 | 54,252 | – | – | – |
| **Total** | | **2016** | **190,812** | **20,334** | **335,044** | **–** |
| | | **2015** | **172,671** | **24,780** | **292,416** | **–** |

Non-executive directors provide services to Serko in their capacity as non-executive directors and have a service agreement with a specified amount of fees payable per annum.

On 9 April 2014 an interest-bearing loan to nuTravel Technology Solutions LLC of US$200,000 was assigned by Financial Equities Limited to Serko Limited in return for an interest-bearing loan repayable on receipt of the loan receivable. The loan expires on 30 June 2016. Financial Equities Limited is a company associated with directors Robert Shaw and Darrin Grafton.

## 17 RELATED PARTIES – CONTINUED

### c) Key management remuneration

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| Short-term benefits employees (*) | 2,125,202 | 1,706,825 |
| Post-employment benefits | 87,213 | 54,594 |
| **Total compensation** | **2,212,415** | 1,761,419 |

(*) Key management personnel includes the executive management team, sales management team and the executive directors in their capacity as Chief Executive Officer and Chief Strategy Officer.

### d) Terms and conditions of transactions with related parties

Outstanding balances at year end are unsecured and settlement occurs in cash.

For the year ended 31 March 2016, the group has not made any allowance for impairment loss relating to amounts owed by related parties (2015: $nil). An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the group recognises an allowance for the impairment loss.

## 18 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| Net loss after tax | (6,234,116) | (6,547,335) |
| **Add non-cash items** | | |
| Amortisation | 486,369 | 273,166 |
| Impairment | 219,521 | – |
| Depreciation | 245,819 | 185,045 |
| Loss on property, plant and equipment disposal | 199,308 | – |
| Interest on shareholder loans | – | – |
| Increase/(decrease) in deferred tax | (2,451) | (84,812) |
| Loss/(gain) on foreign exchange transactions | (112,654) | 97,417 |
| Shares taken in lieu of advisory fees | – | 82,591 |
| Share-based compensation | 516,873 | 370,875 |
| | **(4,681,331)** | **(5,623,053)** |
| **Add/(less) movements in working capital items** | | |
| Increase in receivables excl loans | (549,866) | (1,076,199) |
| (Increase)/decrease in derivative financial instruments | 111,423 | (116,828) |
| Increase in trade and other payables | 533,666 | 51,028 |
| Increase in income tax | 134,151 | 130,610 |
| | **229,374** | **(1,011,389)** |
| **Less items classified as financing activity** | | |
| Interest on convertible notes | – | (3,356) |
| **Net cash flow from operating activities** | **(4,451,957)** | **(6,637,798)** |

## 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's principal financial instruments comprise cash at bank, bank overdrafts, receivables, payables and loans.

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

Group capital consists of share capital and retained earnings. To maintain or adjust the capital structure, the group may adjust amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or amend capital spending plans.

The main risks arising from the group's financial instruments are foreign currency, interest, credit and liquidity risk. The group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign exchange risk and assessments of market forecasts for foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

### Risk exposures and responses

#### INTEREST RATE RISK

The group has exposure to interest rate risk to the extent it borrows funds at fixed and floating interest rates. The risk specifically relates to the variability of interest rates and the impact this will have on the group's financial results. The group manages its cost of borrowing by placing limits on the proportion of borrowings at floating rate and the proportion of fixed rate borrowing repriced in any year.

At balance date this year and prior year, the group did not have any financial liabilities exposed to variable interest rate risk.

#### LIQUIDITY RISK

Liquidity risk represents the group's ability to meet its financial obligations on time. In terms of managing its liquidity risk, the group generates sufficient cash flows from its operating activities and holds sufficient cash reserves to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The following table sets out the contractual cash flows for all financial liabilities settled on a gross cash flow basis.

| | CONTRACTUAL CASH FLOWS | 6 MONTHS OR LESS | 6 – 12 MONTHS | 1 – 2 YEARS | 2 – 5 YEARS | MORE THAN 5 YEARS |
|---|---|---|---|---|---|---|
| **GROUP – 2016** | | | | | | |
| Accounts payable | 2,519,707 | 2,519,707 | – | – | – | – |
| Overdraft | – | – | – | – | – | – |
| Bank loans | – | – | – | – | – | – |
| Related party loans | 335,044 | 335,044 | – | – | – | – |
| Convertible notes | – | – | – | – | – | – |
| Leasehold fitout | – | – | – | – | – | – |
| Finance leases | 9,089 | 5,453 | 3,636 | – | – | – |
| | **2,863,840** | **2,860,204** | **3,636** | **–** | **–** | **–** |
| **GROUP – 2015** | | | | | | |
| Accounts payable | 1,570,478 | 1,570,478 | – | – | – | – |
| Overdraft | – | – | – | – | – | – |
| Bank loans | – | – | – | – | – | – |
| Related party loans | 292,416 | 292,416 | – | – | – | – |
| Convertible notes | – | – | – | – | – | – |
| Leasehold fitout | 19,275 | 7,586 | 7,585 | 4,104 | – | – |
| Finance leases | 6,451 | 3,226 | 3,225 | – | – | – |
| | **1,888,620** | **1,873,706** | **10,810** | **4,104** | **–** | **–** |

## 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

### CURRENCY RISK

The group has exposure to foreign exchange risk as a result of transactions denominated in foreign companies. The risk specifically relates to the variability of foreign exchange rates for the currencies the group trades in and the impact this has on the group's financial results. The majority of the group's trading activities occur in New Zealand dollars, however, sales to overseas customers are transacted in United States and Australian dollars.

Refer to notes 7 and 11 for further details on the group's foreign currency denominated accounts receivable and cash balances.

The following table summarises the sensitivity to foreign currency exchange rate movements. A sensitivity of +/- 15% (2015: +/- 15%) has been selected owing to exchange rate volatility observed.

| | | FOREIGN CURRENCY RISK | | | |
|---|---|---|---|---|---|
| | | -15% | | +15% | |
| | CARRYING AMOUNT | POST-TAX PROFIT | EQUITY | POST-TAX PROFIT | EQUITY |
| | $ | $ | $ | $ | $ |
| **GROUP – 2016** | | | | | |
| Foreign exchange balances | | | | | |
| Cash at bank | 1,305,164 | 165,833 | 165,833 | (122,572) | (122,572) |
| Trade receivables | 1,868,577 | 244,153 | 244,153 | (180,461) | (180,461) |
| Trade payables | (175,726) | (28,343) | (28,343) | 20,949 | 20,949 |
| **Net exposure** | **2,998,015** | **381,643** | **381,643** | **(282,084)** | **(282,084)** |
| Group – 2015 | | | | | |
| Foreign exchange balances | | | | | |
| Cash at bank | 1,561,776 | 198,437 | 198,437 | (146,671) | (146,671) |
| Trade receivables | 1,575,913 | 199,713 | 199,713 | (147,614) | (147,614) |
| Trade payables | (175,726) | (22,328) | (22,328) | 16,503 | 16,503 |
| **Net exposure** | **2,961,963** | **375,822** | **375,822** | **(277,782)** | **(277,782)** |

### CREDIT RISK

Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents, trade receivable and other receivables. The group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The group does not hold any credit derivatives to offset its credit exposure.

The group trades only with recognised, creditworthy third parties and, as such, collateral is not requested. Receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant.

At reporting date 100% (2015: 100%) of the group's cash and cash equivalents was with one bank. The group has no other concentrations of credit risk.

## 20 SEGMENT INFORMATION

The board of directors and senior management team monitors the results of the group's operations as a whole for the purpose of making decisions about resource allocation and performance assessment and therefore the Board has determined the group is a single reportable segment.

Revenues are derived from installation and configuration projects and through the provision of support and maintenance, however, these activities are not independent of the principal activity of the group, being the provision of software solutions for the management and administration of corporate travel bookings.

| GEOGRAPHIC INFORMATION | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| New Zealand | 615,562 | 674,930 |
| Australia | 12,228,852 | 9,501,347 |
| India | 166,961 | 116,951 |
| Singapore | 23,965 | 14,593 |
| US | 47,006 | 20,450 |
| Other | 39,220 | 32,931 |
| **Total Operating Revenue** | **13,121,566** | **10,361,202** |
| **Other Income** | | |
| Grant Income | 1,296,264 | 1,413,182 |
| **Total Revenue & Other Income** | **14,417,830** | **11,774,384** |

New Zealand and Australia geographic information has been restated in the prior year. The total operating revenue has not changed.

As required under IFRS 8 Serko is required to report on major customers making up more than 10% of the revenue for the year. Under this disclosure Serko advises that 1 customer made up more than 10% of the revenue for the group. This customer accounted for $3,581,932 of the revenue for the year ended 31 March 2016.

| | 2016 | 2015 |
|---|---|---|
| **Receivables as part of the segmental revenue above** | | |
| New Zealand | 77,462 | 215,946 |
| Australia | 2,772,346 | 2,130,848 |
| India | 88,860 | 62,114 |
| Singapore | 3,820 | 3,496 |
| US | 36,099 | – |
| Other | 5,553 | 3,715 |
| | **2,984,140** | **2,416,119** |
| **Allowance for impairment as part of trade receivables above** | | |
| New Zealand | – | 26,937 |
| Australia | – | 2,988 |
| India | 7,429 | 12,406 |
| Singapore | – | – |
| US | – | – |
| Other | – | – |
| | **7,429** | **42,331** |

The revenue information above is based on the locations of the customers.

| NON-CURRENT OPERATING ASSETS | 2016 | 2015 |
|---|---|---|
| New Zealand | 1,767,149 | 1,731,537 |
| Australia | 284,754 | 553,083 |
| | **2,051,903** | **2,284,620** |

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

## 21 EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the loss for the year, attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of shares that would be issued on conversion of all of the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS computations:

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| **Loss attributable to ordinary equity holders of the parent** | | |
| Continuing operations | (6,234,116) | (6,547,335) |
| Discontinued operations | – | – |
| | **(6,234,116)** | (6,547,335) |

| | 2016 | 2015 |
|---|---|---|
| | NUMBER | NUMBER |
| **Basic earnings per share** | | |
| Issued ordinary shares (refer note 15) | 72,894,342 | 62,699,382 |
| Weighted average of issued ordinary shares | 64,737,767 | 62,699,382 |
| **Basic earnings per share (dollars)** | **(0.10)** | **(0.10)** |
| **Diluted earnings per share** | | |
| Weighted average of issued ordinary shares | 64,737,767 | 62,699,382 |
| Adjusted for redeemable preference shares and share options | – | – |
| Weighted average of issued ordinary shares for diluted earnings per share | 64,737,767 | 62,699,382 |
| **Diluted earnings per share (dollars)** | **(0.10)** | **(0.10)** |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

## 22 SHARE-BASED PAYMENTS

Employees of the group receive remuneration at the Board's discretion in the form of share-based payment transactions, where services are provided as consideration for the receipt of equity instruments.

The cost of share-based payment transactions are recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for share-based transactions at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period represents the movement in cumulative expenses recognised at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest except where vesting is conditional upon a market condition.

### Employee Restricted Share Plan

The Serko Limited Employee Restricted Share Plan (RSP) was introduced for selected executives and employees of the group. Under the RSP, ordinary shares in Serko Limited are issued to a trustee, Serko Trustee Limited, a wholly-owned subsidiary, and allocated to participants, on grant date, using funds lent to them by the company.

The price for each share issued during the year under the RSP is the higher of the market price of the share on the date on which the shares are allocated or the invitation price.

Under the RSP, shares are beneficially owned by the participants. The length of retention period before the shares vest is between one and three years. If the individual is still employed by the group at the end of this specific period, the employee is awarded a cash bonus that must be used to repay the loan and shares are then transferred to the employee. The number of shares awarded is determined by the Remuneration Committee of the Board. The weighted average grant date fair value of restricted shares issued during the year was \$0.95 (2015: \$1.10) and was determined by the volume weighted average price (VWAP) of shares traded in the previous 20 trading days preceding the date of grant. The group has no legal or constructive obligation to repurchase the shares or settle the RSP for cash.

| | 2016 | 2015 |
|---|---|---|
| Unvested shares at 1 April | 1,021,650 | – |
| Granted | 271,352 | 1,031,605 |
| Forfeited | (13,500) | (9,955) |
| Vested | (4,000) | – |
| **Unvested shares at 31 March – allocated to employees** | **1,275,502** | **1,021,650** |
| Forfeited shares not yet reallocated – held by trustee | 23,455 | 9,955 |
| Unallocated shares – held by trustee | 443,481 | 148,959 |
| **Total** | **1,742,438** | **1,180,564** |
| Percentage of total ordinary shares | 2.4% | 1.9% |
| *Ageing of unvested shares* | | |
| Vest within one year | 536,364 | – |
| Vest after one year | 1,206,074 | 1,180,564 |
| **Total** | **1,742,438** | **1,180,564** |

The number of shares awarded pursuant to the RSP does not equal the number of shares created for the scheme, as the scheme had an allocated pool of shares upon set up and forfeited shares are held in the trust and reissued.

### Share Appreciation Rights

The group's non-executive directors are granted share appreciation rights (SARs), settled by way of a non recourse loan. The SARs vest when the directors continue to be employed as non executive directors at the vesting date. The contractual term of the SARs is three years.

The following table lists the inputs to the model used for the SAR plan at the time of grant:

| | 2016 | 2015 |
|---|---|---|
| Dividend yield (%) | n/a | 0.00 |
| Expected volatility (%) | n/a | 20.00 |
| Risk-free interest rate (%) | n/a | 3.50 |
| Expected life of share options/SARs (years) | n/a | 2.5 |
| Weighted average share price ($) | n/a | 1.10 |
| Model used | | *Black Scholes* |

The expected life of the SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

### Movements during the year

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | NUMBER | WAEP | NUMBER | WAEP |
| Outstanding at 1 April 2015 | **590,909** | – | – | – |
| Granted during the year | – | 1.10 | 590,909 | 1.10 |
| Forfeited during the year | – | – | – | – |
| Exercised during the year | – | – | – | – |
| Expired during the year | – | – | – | – |
| Outstanding at 31 March 2016 | **590,909** | **1.10** | **590,909** | **1.10** |
| Exercisable at 31 March 2016 | **590,909** | **1.10** | **590,909** | **1.10** |

## 23 ACQUISITIONS

* On 1 May 2015 Serko Australia Pty Limited acquired the assets of Arnold Travel Technology Pty Limited, an Australian online corporate travel booking business, from the Expedia Group Inc.

The fair values of the identifiable assets of Arnold Travel Technology Pty Limited as at the date of acquisition, denominated in Australian dollars are:

| | AU$ |
|---|---|
| Customer contracts | 100,000 |
| Goodwill | 30,000 |
| Deferred tax liability | (30,000) |
| | **100,000** |
| Consideration transferred: | |
| Cash paid | 100,000 |
| **Net cash paid on acquisition** | **100,000** |

As part of the acquisition, Serko Australia Pty Limited had related redundancy costs for some existing Arnold Travel Technology Pty Limited employees of AU$102,345.

The Goodwill recognised on the customer contracts as a result of the deferred tax liability was fully impaired during the year.

## 24 EVENTS AFTER BALANCE SHEET DATE

There have been no significant events occurring after balance date (2015: Arnold acquisition).

## 25 CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (2015: $nil).

# GOVERNANCE

The Board and management of Serko Limited (Serko or the company) are committed to ensuring that Serko maintains corporate governance practices in line with current best practice and adheres to the highest ethical standards.

Serko is currently listed on the New Zealand stock exchange (NZX Main Board). The Board considers that its policies and practices comply with the corporate governance requirements of the listing rules applying to the NZX Main Board (NZX Listing Rules) and are consistent with the principles contained in the NZX *Corporate Governance Best Practice Code*, and the Financial Markets Authority Handbook *'Corporate Governance in New Zealand Principles and Guidelines'* (collectively, the 'Principles'). While Serko is not required to comply with the Australian Securities Exchange (ASX) *Corporate Governance Council Corporate Governance Principles and Recommendations* (3rd Edition), the Board believes that its practices largely also meet the ASX Principles and Recommendations.

This governance statement outlines the main corporate governance practices adopted by Serko. Serko's constitution and principal governance documents are available on Serko's website. Go to: www.serko.com/investor-centre/. In this Corporate Governance Statement, we report on how the company has followed the recommendations set out in the Principles

## ETHICAL STANDARDS

### Code of Ethics

The Board recognises that high ethical standards and behaviours are central to good corporate governance and has implemented a Code of Ethics to guide the behaviour of its directors and employees. Serko's Code of Ethics establishes the framework by which directors and staff of Serko are expected to conduct their professional lives by facilitating behaviour and decision-making that meets Serko's business goals and is consistent with Serko's values, policies and legal obligations. Serko's *Code of Ethics* is available on Serko's intranet and forms part of the induction process for new employees. There have been no instances raised with either the Board or management around any alleged breaches of the *Code of Ethics*. Serko encourages staff to report any concerns they have about compliance with the *Code of Ethics*, Serko policies or legal obligations.

The *Code of Ethics* addresses:

- Conflicts of interest
- Receipt of gifts
- Proper use of Serko property and information
- Confidentiality
- Expected behaviours
- Compliance with laws and Serko policies
- Additional director responsibilities
- Delegated Authority
- Reporting issues regarding breaches of the Code, legal obligations or other Serko policies.

### Securities Trading Policy

Serko is committed to complying with legal and statutory requirements with respect to ensuring directors and employees do not trade Serko securities while in possession of inside information.

Serko's Securities Trading Policy and Guidelines apply to all directors, officers, employees and contractors of Serko and its subsidiaries. This Policy seeks to ensure that those subject to the Policy do not trade in Serko securities if they hold undisclosed price-sensitive information. The Policy sets out additional rules, which includes the requirement to seek company consent before trading and prescribes certain periods during which trading is prohibited.

Compliance with the Securities Trading Policy is monitored through the consent process, through education and via notification by Serko's share registrar when any director or senior manager trades in Serko securities. All trading by directors and senior managers (as defined by the Financial Markets Conduct Act 2013) is required to be reported to NZX and recorded in Serko's securities trading registers.

In addition to the restrictions outlined above, at the time of Serko's initial public offering and concurrent listing on the NZX Main Board, each director and senior manager who held shares in Serko prior to listing entered into a deed of embargo restricting them from disposing of their Serko shares for a specified period. All embargo arrangements entered into at that time ceases two business days after Serko makes its preliminary announcement for the financial year ending 31 March 2016 (on 27 May 2016).

## BOARD OF DIRECTORS

### Role of the Board

The Board of Directors (the Board) is elected by shareholders to govern Serko in the interests of shareholders and to protect and enhance the value of Serko's assets. The Board is responsible for corporate governance and Serko's overall strategic direction and is the overall and final body responsible for all decision-making within Serko. The Board Charter describes the Board's role and responsibilities and regulates internal Board procedure.

The Board has delegated a number of its responsibilities to Board committees. The role of each committee is described below.

To enhance efficiency, the Board has also delegated to the Chief Executive Officer the day-to-day leadership and management of Serko. The Chief Executive Officer has, in some cases, formally delegated certain authorities to his direct reports within set limits. The Board regularly monitors and reviews management's performance in the execution of its delegated responsibilities.

The Board met for 12 regularly scheduled meetings during the financial year and additional special meetings. There were also separate meetings of the Board committees during the year. The Board currently intends to meet 11 times during the financial year ending 31 March 2017.

# GOVERNANCE AND STATUTORY DISCLOSURES

### Board membership, size and composition

The NZX Listing Rules state that the number of directors must not be fewer than three and a Board must have at least two independent directors. Subject to this limitation, and in accordance with the provisions of Serko's constitution and the Board Charter, the size of the Board is determined by the Board from time to time.

As at 31 March 2016, and the date of this annual report, the Board comprised five directors – being the two co-founders Darrin Grafton and Robert Shaw and three independent non-executive directors – Simon Botherway, Claudia Batten and Clyde McConaghy. For biographical details of individual directors see **About Serko** – **Board of Directors** above.

The Remuneration and Nominations Committee is responsible for making recommendations to the Board regarding the Board's size and composition. When recommending candidates to act as director, the Committee will take into account factors as it deems appropriate, including the diversity of background, experience and qualifications of the candidate. When appointing directors, the Board undertakes appropriate background checks.

The Board's broader commitment to diversity includes building diversity of thought within the Board of Directors. The current Board has a broad range of experience and skills, both locally and internationally, that are appropriate to meet its objectives. To assist in maintaining an appropriate mix of experience, the Board has developed a skills matrix. Areas of expertise and experience that have been identified as relevant to governing Serko's business include, among other skills:

- Innovation, entrepreneurship and partnership
- Digital business and high growth technology
- Travel
- Marketing, sales and channel management in core markets
- Governance, legal & compliance
- Strategy and operations
- Finance, accounting and risk management
- Capital markets
- Public company director experience.

### Independence of directors

A majority of Serko's directors are independent. A director is considered to be independent if that director is not an executive of Serko and if the director has no direct or indirect interest or relationship that could reasonably influence, in a material way, the director's decisions in relation to Serko.

The Board has determined that each non-executive director is an independent director for the purposes of the NZX Listing Rules and in accordance with the Board Charter. As at 31 March 2016, Serko had two non-independent directors and three independent directors.

The Board will review any determination it makes on a director's independence on becoming aware of any new information that may affect that director's independence. For this purpose, directors are required to ensure they immediately advise Serko of any new or changed relationship that may affect their independence or result in a conflict of interest.

The Board supports the separation of the role of Chairman and Chief Executive Officer. The Chairman is elected by the Board from the non-executive directors. The Chairman's role is to manage and provide leadership to the Board and to facilitate the Board's interface with the Chief Executive Officer. The current Chairman, Simon Botherway, was appointed on 30 April 2014 and is an independent director.

### Board appointment, training and evaluation

The procedure for the appointment and removal of directors is ultimately governed by the company's constitution and relevant NZX Listing Rules. A director is appointed by ordinary resolution of the shareholders although the Board may fill a casual vacancy. Every director appointed by the Board must submit himself or herself for reappointment by shareholders at the next annual meeting following his or her appointment. Directors are subject to the rotation requirements set out in the NZX Listing Rules.

At the time of appointment, each new director signs a comprehensive letter of appointment setting out the terms of their appointment, including their duties and expectations in the role. Each director also receives a copy of Serko's *Corporate Governance Manual* (comprising all of Serko's core governance documents) and is introduced to the business through a specifically tailored induction programme. All directors are regularly updated on relevant industry and company issues and are expected to undertake training to remain current on how to best perform their duties as directors of Serko.

All directors have access to senior management to discuss issues or obtain information on specific areas or items to be considered at the Board meeting or other areas they consider appropriate.

The Board, Board committees and each director have the right to seek independent professional advice at Serko's expense to assist them in carrying out their responsibilities.

The Board undertakes a regular review of its own and its committees' performance. This is to ensure it has the right composition and appropriate skills, qualifications, experience and background to effectively govern Serko and to monitor Serko's performance in the interests of shareholders. During the financial period ended 31 March 2016, performance reviews took place in accordance with that process.

### Conflicts of interest

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest (both real and perceived) between their duty to Serko and their own interests. The Board Charter outlines the Board's policy on conflicts of interest. Serko maintains an interests register in which relevant disclosures of interest and securities dealings by the directors are recorded.

### Company Secretary

The Company Secretary, Tim Bluett, is responsible for supporting the effectiveness of the Board by ensuring that its policies and procedures are followed and for coordinating the completion and dispatch of the Board agendas and papers. The Company Secretary is accountable to the Board, via the Chair, on all governance matters.

## BOARD COMMITTEES

The Board uses committees to deal with issues requiring detailed consideration, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its committees and determines each committee's roles and responsibilities.

The current committees of the Board and their members are:

- Audit and Risk Committee
- Remuneration and Nominations Committee.

Details of the roles and responsibilities of these committees are described in their respective charters and summarised below.

From time to time the Board may constitute an ad-hoc committee to deal with a particular issue that requires specialised knowledge and experience.

### Audit and Risk Committee

The primary function of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities relating to Serko's risk management and internal control framework, the integrity of its financial reporting and auditing processes. The Audit and Risk Committee held six meetings during the year ended 31 March 2016. The Committee intends to hold at least four meetings during the year ending 31 March 2017.

Under the Audit and Risk Committee charter, the Committee must be comprised of a minimum of three members who are each non-executive directors, the majority of whom are also independent directors and at least one director with an accounting or financial background. Further, the Chairman of the Committee is required to be independent and not be the chairman of the Board.

The current members of the Committee are Clyde McConaghy (Chair), Simon Botherway and Claudia Batten. All members are independent, non-executive directors. Their qualifications and experience is set out under **About Serko – Board of Directors** above.

### Remuneration and Nominations Committee

The primary function of the Remuneration and Nominations Committee is to oversee remuneration policies and practices at Serko, oversee management succession planning, consider the composition of the Board and recommend candidates to fill Board vacancies as and when they arise. The Committee is also tasked with annually monitoring and evaluating the company's performance with respect to its diversity policy. The Remuneration and Nominations Committee held four meetings during the year ended 31 March 2016. The Committee intends to hold at least four meetings during the year ending 31 March 2017.

Under the Remuneration and Nominations Committee Charter, the Committee must be comprised of a minimum of three members, a majority of whom are independent directors. All members of the Committee are currently independent directors. The chairman of the Committee is required to be independent.

The current members of the Committee are Claudia Batten (Chair), Simon Botherway and Clyde McConaghy. All members are independent, non-executive directors. Their qualifications and experience is set out under **About Serko – Board of Directors** above.

The table below shows the Board and Committee meeting attendance during the year ended 31 March 2016:

| | BOARD | | AUDIT & RISK COMMITTEE | | REMUNERATION & NOMINATIONS COMMITTEE | |
|---|---|---|---|---|---|---|
| | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND* | ATTENDED | ELIGIBLE TO ATTEND* | ATTENDED |
| Darrin Grafton | 12 | 12 | – | – | – | – |
| Bob Shaw | 12 | 12 | – | – | – | – |
| Simon Botherway | 12 | 12 | 5 | 5 | 4 | 4 |
| Clyde McConaghy | 12 | 12 | 5 | 5 | 4 | 4 |
| Claudia Batten | 12 | 12 | 5 | 4 | 4 | 4 |

* Executive directors attend Committee meetings as observers.

## REPORTING AND DISCLOSURE

### Financial Reporting

The Board is responsible for ensuring the integrity of its financial reporting. As noted above under **Board Committees**, the Audit and Risk Committee closely monitors financial reporting risks in relation to the preparation of the financial statements. The Audit and Risk Committee, with the assistance of management, works to ensure that the financial statements are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. As part of this process, the Chief Executive Officer and Chief Financial Officer are required to state in writing to the Board that, to the best of their knowledge, the company's financial reports present a true and fair view of the company's financial condition and operational results, and are in accordance with the relevant accounting standards, and those reports are founded on a sound system of risk management and internal control that is operating effectively.

### Market Disclosure Policy

Serko is committed to the promotion of investor confidence by ensuring that the trading of Serko's securities takes place in an efficient, competitive and informed market. Serko's Market Disclosure Policy establishes the company's disclosure policies for meeting the continuous disclosure requirements of the NZX Main Board. In addition, directors and management consider at each Board meeting whether there are any issues that have arisen that require disclosure to the market.

Serko has established a Disclosure Committee whose role it is to determine whether information is 'material information' and whether the material information is required to be released to the NZX. The Disclosure Committee comprises the Board Chairman, the Audit and Risk Committee Chairman, the Chief Executive Officer and the Chief Financial Officer (the Disclosure Officer).

## REMUNERATION

### Non-executive director remuneration

Prior to listing, Serko's shareholders approved a total cap of $350,000 per annum for non-executive director fees, for the purposes of the NZX Listing Rules. Serko currently pays directors' fees which, in aggregate, amount to approximately $190,000[1] per annum, comprising $70,000 per annum for the Chairman, and A$55,000 per annum for each of the other non-executive directors. The additional level of directors' fees is intended to provide flexibility for Serko to appoint additional non-executive directors in the future and to allow for an increase in directors' fees in the future. Serko may undertake a review of director fees during the current financial year to ensure that the company is offering appropriate levels of remuneration to both existing and prospective directors.

Non-executive directors do not currently take a portion of their remuneration under an equity security plan but directors may hold shares in the company, details of which are set out in the **Director Interest Disclosures** section of this *Annual Report*. It is Serko's policy to encourage directors to hold shares in the company. At the date of this *Annual Report*, all directors hold shares in Serko.

The non-executive directors are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings or otherwise in connection with Serko's business. No retirement benefits will be paid to the non-executive directors on their retirement.

In addition to the remuneration detailed above, the Board has, with the approval of Serko's existing shareholders, introduced a loan facility for the independent directors, which enabled them to acquire a specified number of Serko shares at the time of the IPO (Director Loan Shares). The loans are interest free and repayable after three years (on 30 April 2017) or earlier at the discretion of the independent director or upon the independent director ceasing to be a Serko director. Further details are set out in the IPO Prospectus dated 26 May 2014.

### Executive director remuneration

Darrin Grafton and Bob Shaw, the executive directors on the Board for the period ended 31 March 2016, did not receive any remuneration in their capacity as directors. They were, however, remunerated for services as Chief Executive Officer and Chief Strategy Officer of Serko. The executive directors are eligible to receive a performance-based, at-risk, short-term incentive payment if pre-determined individual and company performance criteria is met. No short-term incentive was paid to, or accrued by, the executive directors during the period ended 31 March 2016.

Subject to compliance with the NZX Listing Rules, the executive directors may also participate in Serko's long-term incentive scheme (detailed below) if specified performance criteria is met.

### FY16 Director Remuneration

Details of the total remuneration of, and the value of other benefits received by, each Director of Serko during the financial year ended 31 March 2016 were as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | FEES | REMUNERATION | FEES | REMUNERATION |
| Darrin Grafton* | – | 280,004 | – | 280,061 |
| Bob Shaw* | – | 280,000 | – | 280,000 |
| Simon Botherway | 70,000 | – | 64,167 | 33,400 |
| Clyde McConaghy | 60,406 | – | 54,252 | 10,835 |
| Claudia Batten | 60,406 | – | 54,252 | 22,516 |
| | **190,812** | **560,004** | **172,671** | **626,812** |

* Darrin Grafton and Bob Shaw are executive directors and receive remuneration from Serko in the form of salaries and short-term incentives. They did not participate in the Serko Employee Restricted Share Scheme this year or receive remuneration in their capacity as directors. Darrin and Bob also received KiwiSaver contributions of $7,500 each.

1 Subject to exchange rate fluctuations

## Employee remuneration

Serko's remuneration framework aims to support and reward execution of its strategy; create a performance-focused culture; and attract, develop and retain talented employees. Serko's remuneration framework is designed to encourage and reward behaviour consistent with achievement of these objectives. Serko adopts a total remuneration policy, where an employee's total remuneration may include, but is not limited to, their base salary and a short-term incentive or sales plan incentive in the form of a cash bonus upon achievement of pre-determined targets. The base salary aims to reflect the mid-point in the employment market when considering the position's requirements pertaining to skills, level of responsibility and complexity; while the short-term incentive and sales incentive schemes reward superior performance and enable employees to earn at the upper-end of the employment market. Short-term incentive bonuses were not paid during the year ended 31 March 2016, owing to the organisation not reaching the target thresholds allowing any payout.

In addition, Serko is now in the second year of its long-term incentive scheme, in the form of restricted shares. This scheme is designed to attract and retain key people within the business, to align senior managers' remuneration with shareholder value and to reward the achievement of Serko's strategies and business plans. During the year ended 31 March 2016, eligible Australian and New Zealand resident employees were allocated an average of 60% of their on-target contractual potential under this scheme – this allocation vests three years after the allocation date. Under the Restricted Share Scheme, no director or employee is permitted to enter into financial products or arrangements which operate to limit the economic risk of their unvested shares.

Serko's senior managers are subject to regular performance reviews, measuring their performance against pre-agreed key performance targets (both financial and non-financial). The Chief Executive Officer's performance is reviewed by the Board. The performance of senior executives is undertaken by the Chief Executive Officer with oversight from the Remuneration and Compensation Committee. During the financial period ended 31 March 2016, performance reviews took place in accordance with that process.

The table below shows the number of employees and former employees of Serko and its subsidiaries, not being directors of Serko, who, in their capacity as employees, received remuneration and other benefits during the period ended 31 March 2016 totalling at least NZ$100,000.

The remuneration of those employees paid outside of New Zealand has been converted into New Zealand dollars. No employee appointed as a director of a subsidiary company of Serko receives any remuneration or other benefits for acting in that capacity.

| REMUNERATION RANGE (NZD) | TOTAL NUMBER OF EMPLOYEES |
|---|---|
| $100,000 – $110,000 | 9 |
| $110,001 – $120,000 | 8 |
| $120,001 – $130,000 | 11 |
| $130,001 – $140,000 | 8 |
| $140,001 – $150,000 | 4 |
| $150,001 – $160,000 | 2 |
| $160,001 – $170,000 | 1 |
| $170,001 – $180,000 | 1 |
| $180,001 – $190,000 | |
| $190,001 – $200,000 | |
| $200,001 – $210,000 | 3 |
| $210,001 – $220,000 | 1 |
| $220,001 – $230,000 | |
| $230,001 – $240,000 | |
| $240,001 – $250,000 | |
| $250,001 – $260,000 | 1 |

The table includes base salaries, short-term incentives and vested or exercised long-term incentives. The table does not include: long-term incentives that have been granted and have not yet vested. Where the individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme are included in the above table. Where the individual works in Australia contributions of 9.5% of gross earnings towards Australian Superannuation are included in the above table.

## DIVERSITY

The Board is committed to providing equal employment opportunities and, as such, has a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicity and experiences. The company works to ensure that its selection processes for recruitment and employee development opportunities are free from bias and are based on merit.

The Board recognises that building diversity across Serko will deliver enhanced business performance. Serko has adopted a Diversity Policy and is committed to achieving diversity in the skills, attributes and experience of its Board members, management and staff across a broad range of criteria (including, but not limited to, culture, gender and age). The Board as a whole is responsible for overseeing and implementing the Diversity Policy but has delegated to the Remuneration and Nominations Committee the responsibility to develop and to recommend objectives to the Board that are designed to adhere to Serko's diversity policy.

As at 31 March 2016, Serko employees represented 20 different nationalities. Serko believes this diversity is critical for encouraging awareness of cultural experiences as we expand into different markets. Serko's employees range in age from early 20s to mid 50s, with the spread peaking in early 30s.

The respective numbers and proportions of men and women at various levels within the Serko workforce as at 31 March 2015 and 31 March 2016 are set out in the table below:

| | FEMALE | | | | MALE | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2015 | | 2016 | |
| | NO. | % | NO. | % | NO. | % | NO. | % |
| Directors | 1 | 20% | **1** | **20%** | 4 | 80% | **4** | **80%** |
| Senior Executives [a] | 0 | 0% | **0** | **0%** | 7 | 100% | **7** | **100%** |
| Senior Employees [b] | 8 | 57% | **8** | **62%** | 6 | 43% | **5** | **38%** |
| Remaining workforce | 47 | 42% | **44** | **40.7%** | 65 | 58% | **64** | **59.3%** |

NOTES:

a. Senior Executives are considered to be the Chief Executive Officer and his direct reports (the Executive Team). Note that Chief Executive Officer, Darrin Grafton and Chief of Strategy, Bob Shaw, are included in both the number of directors and Senior Executives reported.

b. Direct reports to senior executives with managerial responsibilities.

### Diversity objectives

The Board's evaluation of Serko's performance during the financial period with respect to the objectives contained in its Diversity Policy are set out below:

- **Objective:** Facilitate and promote equal employment opportunities, including (but not limited to) diversity of culture, gender and age when considering opportunities for new and existing Serko people.

  **Progress:** The company has continued to manage its recruitment internally and, while employment decisions are based on ensuring the organisation finds the right person for the job, we have continued to ensure decisions are not biased throughout the process by any identifying factor such as gender, culture, age. This practice resulted in us onboarding 50% females during the financial year, (inclusive of both employees and contractors). The organisation is considering implementing measurable targets to ensure we continue to strive toward a similar result in future years.

- **Objective:** Promote a merit-based environment in which employees have the opportunity to develop and perform to their full potential in alignment with the company's commitment to the ongoing training and wellbeing of its employees.

  **Progress:** We have had a number of internal movements and promotions of people into higher paying jobs during the year, including establishing of a career path from our support and implementations areas in our Client Services department into our Testing team within our Technology department. This has been highly successful in terms of bringing in well-qualified Testers with excellent knowledge of our product and also providing an opportunity for our employees to continue their learning into new roles. The majority of internal movements and promotions during FY16 have been female. The Board has requested further work be conducted to encourage the development of our female employees to enable their succession into executive roles.

- **Objective:** Reward excellence and ensure employees are treated fairly, evaluated objectively and promoted on the basis of their performance.

  **Progress:** The diverse composition of Serko's workforce (refer above for details) evidences Serko's commitment to being an equal opportunity employer. Serko's annual salary reviews are merit-based and reflect the responsibilities of each position and the employment market. These reviews provide visibility to management in relation to parity of working conditions and pay across its workforce. The Board requested management to conduct a pay equity audit during FY16, both of rates and including an audit of the annual salary review process, to ensure an equitable approach was achieved. The results of the audit indicated that individuals in comparable roles are earning comparable rates, regardless of gender, however, it did highlight that there were more males in senior roles (higher paying jobs) than females.

## RISK MANAGEMENT

### Risk Management Framework

Serko has designed and implemented a risk framework for the oversight and management of financial and non-financial business risks, as well as related internal compliance systems that are designed to:

- Optimise the return to, and protect the interests of, stakeholders;
- Safeguard the company's assets and maintain its reputation;
- Improve the company's operating performance;
- Fulfill the company's strategic objectives; and
- Manage the risks associated with Serko's operations.

The Board ultimately has responsibility for internal compliance and internal control processes. The Audit and Risk Committee assists the Board in discharging its responsibilities.

The Audit and Risk Committee in conjunction with management, regularly reports to the Board on the effectiveness of the company's management of its material business risks and whether the risk management framework and systems of internal compliance and control are operating effectively and efficiently in all material respects. The Audit and Risk Committee conducted a review of Serko's risk management framework during the period ended 31 March 2016 and satisfied itself that it continues to be sound.

Serko does not have a dedicated internal auditor, instead internal controls are managed on a day-to-day basis by the finance team. Compliance with internal controls is reviewed annually by Serko's auditors, with oversight from the Audit and Risk Committee.

### Health and Safety

Serko has adopted a Health and Safety Policy and both the Board and management are committed to promoting a safe and healthy working environment for everyone working in or interacting with Serko's business. The Health and Safety Policy requires Serko people to endeavour to take all practicable steps to provide a working environment that promotes health and wellbeing, while minimising the potential for any risk, personal injury, ill health or damage. The Board has been leading a detailed programme of work to ensure Serko remains compliant with its health and safety obligations under the new Health and Safety at Work Act 2015 that came into force in April 2016. Our Health and Safety Management system will be externally audited by the Accident Compensation Corporation auditors early in the financial period ending 31 March 2017.

## AUDITORS

### Auditor independence

Serko has adopted an External Audit Independence Policy that requires, and sets out the criteria for, the external auditor to be independent. The Policy recognises the importance of the Board's role in facilitating frank dialogue among the Audit and Risk Committee, the auditor and management.

The Policy requires that the lead and engagement audit partners be rotated after a maximum of five years so that no such persons shall be engaged in an audit of Serko for more than five consecutive years.

The Audit and Risk Committee Charter requires the Committee to facilitate the continuing independence of the external auditor by assessing the external auditor's independence and qualifications, and overseeing and monitoring its performance. This involves monitoring all aspects of the external audit, including the appointment of the auditor, the nature and scope of its audit and reviewing the auditor's service delivery plan.

In carrying out these responsibilities the Audit and Risk Committee meets regularly with the auditor without executive directors or management present.

The auditor is restricted in the non-audit work it may perform. In the last financial year the audit firm has undertaken specific non-audit work. None of that non-audit work is considered to have compromised (or be seen to have compromised) the independence of the auditor. For further details on the audit and non-audit fees paid and work undertaken during the period, refer to note 5 of the **Financial Statements** above.

## SHAREHOLDER RELATIONS

Serko is committed to maintaining a full and open dialogue with its shareholders. The company has in place an investor relations programme to facilitate effective two-way communication with investors.

The aim of the company's communication programme is to provide shareholders with information about the company and to enable shareholders to actively engage with the company and exercise their rights as shareholders in an informed manner. The company facilitates communication with shareholders through written and electronic communication and by facilitating shareholder access to directors, management and the company's auditors.

The company provides shareholders with communication through the following channels:

- The investor section of the Serko's website
- The annual report
- The interim report
- The annual shareholders' meeting
- Regular disclosures on company performance and news via the NZX online disclosure platform
- Disclosure of presentations provided to analysts and investors during regular briefings.

Serko's website is an important part of the company's shareholder communications strategy. Included on the website is a range of information relevant to shareholders and others concerning the operation of the company and its subsidiaries, including information about the company and its history, biographies of the company's directors and senior management, the company's constitution, Board Charter (and the charters of the various board committees) and other corporate governance policies of the company.

Shareholders may, at any time, direct questions or requests for information to directors or management through Serko's website or by sending an email to investor.relations@serko.com.

Serko provides shareholders with the option to receive communications from, and send communications to, the company and its share registrar electronically. A large number of Serko shareholders have elected to receive electronic communications.

### Annual Shareholders' Meeting

Serko's 2016 Annual Shareholders' Meeting will be held in Auckland on 23 August 2016. Shareholders will be given an opportunity at the meeting to ask questions and comment on relevant matters. In addition, Serko's auditor, Ernst & Young, will be available to answer any questions about its audit report. A Notice of Meeting will be sent to shareholders in advance of the meeting.

## DIRECTOR INTEREST DISCLOSURES

In accordance with Section 140(1) of the Companies Act 1993, directors disclosed the following interests in transactions with Serko during the financial year ending 31 March 2016:

| NAME OF DIRECTOR | NATURE OF DIRECTORS' INTEREST IN TRANSACTION |
|---|---|
| Darrin Grafton<br>Bob Shaw | Gave notice to the Board that they had entered into a Restricted Share Plan Deed whereby they agreed to restrict their voting rights in any shares acquired pursuant to the Restricted Share Scheme (Relevant Shares) so that the Relevant Share is not a voting security under the Takeovers Code. |
| Darrin Grafton<br>Bob Shaw | Gave notice to the Board that Financial Equities Limited, in which they were shareholders and directors, had entered into a Deed of Amendment (dated 28 September 2015) with Serko Limited and nuTravel Technology Solutions in respect of a loan to nuTravel Technology Solutions. |
| Darrin Grafton<br>Bob Shaw | Gave notice to the Board that Financial Equities Limited, in which they were shareholders and directors, had entered into a Loan Agreement with Serko Limited dated 14 December 2015. |
| Darrin Grafton<br>Bob Shaw | Gave notice to the Board that Financial Equities Limited, in which they were shareholders and directors, had entered into a Second Deed of Amendment (dated 22 March 2016) with Serko Limited and nuTravel Technology Solutions in respect of a loan to nuTravel Technology Solutions. |

Directors have given general notices disclosing interests pursuant to section 140(2) of the Companies Act 1993. Those interests (or changes to interests) notified and recorded in Serko's Interests Register during the financial year ended 31 March 2016 are set out below:

| DIRECTOR | ENTITY | RELATIONSHIP |
|---|---|---|
| Simon Botherway | Landcorp Board | Appointed Advisor |
| | Callaghan Innovation Board | Appointed Board Member |
| Clyde McConaghy | Integrated Research Limited | Ceased to be Director |

In accordance with Section 148(2) of the Companies Act 1993, directors disclosed the following acquisitions or disposals of relevant interests in Serko ordinary shares during the financial year ended 31 March 2016:

| NAME | DATE OF ACQUISITION/DISPOSAL | NUMBER OF SHARES ACQUIRED/(DISPOSED) | NATURE OF RELEVANT INTEREST | CONSIDERATION PAID/RECEIVED |
|---|---|---:|---|---:|
| Darrin Grafton | 5 August 2015 | 3,810 | Power to exercise, or control the exercise of, a right to vote attached to ordinary shares [(a)] | $3,657.60 |
| | 22 December 2015 | 297,619 | Registered holder and beneficial owner [(b)] | $250,000.00 |
| Bob Shaw | 22 December 2015 | 514,286 | Registered holder and beneficial owner [(b)] | $432,000.00 |

NOTES:

a. The director has the power to exercise, or to control the exercise of, a right to vote attached to these shares by virtue of a personal relationship with the legal and beneficial holder of these shares.

b. Held via a trust in which the director is a trustee. Acquired under institutional placement in December 2015.

In accordance with the NZX Listing Rules, as at 31 March 2016, directors had a relevant interest in Serko ordinary shares as follows:

| NAME | RELEVANT INTEREST | PERCENTAGE |
|---|---|---|
| Darrin Grafton [a][b] | 14,209,033 | 19.493% |
| Bob Shaw [a] | 12,884,296 | 17.675% |
| Simon Botherway [c] | 2,319,000 | 3.181% |
| Claudia Batten | 181,818 | 0.249% |
| Clyde McConaghy [a] | 181,818 | 0.249% |

NOTES:

a. Held via a trust in which the director is a trustee.

b. Includes the power to exercise, or to control the exercise of, a right to vote attached to 1,537,594 shares and 3,810 restricted shares by virtue of a personal relationship with the legal and beneficial holder of these shares.

c. Partially held via a trust in which the director is a trustee.

There were no entries in the Interests Register for the purposes of section 161 of the Companies Act 1993.

For the purposes of section 162 of the Companies Act 1993, an entry was made in the Interests Register in relation to insurance effected for directors and officers of Serko, in relation to any act or omission in their capacity as directors.

## SHAREHOLDER INFORMATION

As at 1 May 2016 there were 72,894,342 Serko Limited ordinary shares on issue, each conferring on the registered holder the right to vote on any resolution at a meeting of shareholders, held as follows:

| SIZE OF SHAREHOLDING | NUMBER OF HOLDERS* | % | NUMBER OF ORDINARY SHARES | % |
|---|---|---|---|---|
| 1 to 1,000 | 101 | 12.87 | 82,295 | 0.11 |
| 1,001 to 5,000 | 335 | 42.68 | 1,091,822 | 1.50 |
| 5,001 to 10,000 | 125 | 15.92 | 1,046,306 | 1.44 |
| 10,001 to 50,000 | 156 | 19.87 | 3,638,323 | 4.99 |
| 50,001 to 100,000 | 29 | 3.69 | 2,084,533 | 2.86 |
| 100,001 and over | 39 | 4.97 | 64,951,063 | 89.10 |
| | **785** | **100.00** | **72,894,342** | **100.00** |

* Includes 1,742,438 ordinary shares with restrictive conditions held by Serko Trustee Limited on behalf of 72 beneficial holders pursuant to the Serko Restricted Share Scheme. Restricted shares have voting rights attached, which are exercised on behalf of a beneficial holder by the Trustee at the direction of the beneficial holder.

As at 1 May 2016 there were 12 shareholders holding between 1 and 500 ordinary shares (a minimum holding under the NZX Listing Rules), in respect of 2,756 shares.

Set out below are details of the 20 largest shareholders of Serko as at 1 May 2016:

| | SHAREHOLDER | NUMBER OF ORDINARY SHARES HELD | % |
|---|---|---|---|
| 1. | Robert James Shaw & Sarah Elizabeth Shaw | 12,884,296 | 17.68 |
| 2. | Darrin Grafton & Geoffrey Robertson Ashley Hosking | 12,667,629 | 17.38 |
| 3. | National Nominees New Zealand Limited | 9,122,332 | 12.51 |
| 4. | Cogent Nominees Limited | 2,477,462 | 3.40 |
| 5. | Simon John Botherway & MSH Trustee (Arrow) Limited | 2,034,091 | 2.79 |
| 6. | JPMORGAN Chase Bank | 1,749,992 | 2.40 |
| 7. | Serko Trustee Limited | 1,742,438 | 2.39 |
| 8. | Robert Alan Hawker & Elizabeth Anne Hawker | 1,564,994 | 2.15 |
| 9. | Donna Bailey | 1,537,594 | 2.11 |
| 10. | Philip Rodger Ball | 1,537,594 | 2.11 |
| 11. | Sherie Robyn Hammond | 1,537,594 | 2.11 |
| 12. | Michael John Thorburn | 1,537,594 | 2.11 |
| 13. | Accident Compensation Corporation | 1,374,910 | 1.89 |
| 14. | Joanne Maree Phipps | 1,345,972 | 1.85 |
| 15. | Public Trust | 1,174,174 | 1.61 |
| 16. | Tracey Ann Shorter | 1,123,041 | 1.54 |
| 17. | John S Challis & AH Trustees (Challis Holdings) Ltd | 865,762 | 1.19 |
| 18. | Public Trust Forte Nominees Limited | 798,983 | 1.10 |
| 19. | NZ Permanent Trustees Ltd Group Investment Fund No 20 | 595,238 | 0.82 |
| 20. | FNZ Custodians Limited | 572,248 | 0.79 |

According to notices given to Serko under the Financial Markets Conduct Act 2013 (and Securities Markets Act), the following persons were substantial product holders as at 31 March 2016:

| SUBSTANTIAL PRODUCT HOLDER | NUMBER OF ORDINARY SHARES IN WHICH RELEVANT INTEREST IS HELD | % OF CLASS HELD AT DATE OF LAST NOTICE |
|---|---|---|
| Serko Limited | 35,910,287 | 57.273% |
| Geoffrey Hosking | 25,573,925 | 35.138% |
| Darrin Grafton | 14,209,033 | 19.523% |
| Robert (Bob) Shaw and Sarah Shaw | 12,884,296 | 17.703% |
| Milford Asset Management Limited | 6,095,817 | 8.376% |

As at the balance date (31 March 2016) there were 72,894,342 Serko Limited ordinary shares on issue.

## SUBSIDIARY COMPANY DIRECTORS

Directors of Serko's subsidiaries do not receive any remuneration or other benefits in respect of their appointments. The remuneration and other benefits of any such directors who are employees of the group totalling $100,000 or more during the year ended 31 March 2016 are included in the relevant bandings for remuneration disclosed on page 47 of this *Annual Report*.

The following persons held office as directors of subsidiary companies as at 31 March 2016:

### Serko Australia Pty Limited

Darrin Grafton
Bob Shaw
John Challis

### Serko Trustee Limited

Timothy Bluett
Fiona Rockel

### Serko Investments Limited

Darrin Grafton
Bob Shaw

### Serko India Private Limited

Darrin Grafton
Bob Shaw
Yogita Chadha

As at 31 March 2016, Serko also has a representative office in China.

There were no entries made in the subsidiary company Interest Registers during the financial reporting period.

## REGULATORY MATTERS

On 22 July 2015, NZX regulation granted Serko a waiver from NZX Listing Rule 7.6.4(b)(iii) to the extent required to allow Serko to provide financial assistance to executive directors, and an associated person of one of the executive directors, to enable them to participate in Serko's Restricted Share Scheme (described in more detail under **Remuneration** above). The full waiver is available on Serko's website. Go to: www.serko.com/investor-centre/.

Neither the NZX or the Financial Markets Authority has taken any disciplinary action against Serko during the financial year ending 31 March 2016.

## DONATIONS

Serko made no donations during the financial reporting period.

## CREDIT RATING

Serko does not currently have an external credit rating status.

## DISTRIBUTIONS

There were no dividends or distributions paid to shareholders during the financial period.

# GLOSSARY

| | |
|---|---|
| **Asia Pacific** | Vietnam, Thailand, Taiwan, Sri Lanka, South Korea, South Africa, Singapore, Philippines, Pakistan, New Zealand, Malaysia, Japan, Indonesia, India, Hong Kong, China, Bangladesh and Australia for the purposes of this *Annual Report* |
| **AUD or A$** | Australian dollar |
| **Australasia** | New Zealand and Australia for the purposes of this *Annual Report* |
| **Board or Board of Directors** | The board of directors of Serko |
| **Cloud or cloud-based** | Cloud computing is when the software and associated data is hosted outside the customer's premises and delivered over a network or the Internet as a service, which allows immediate access to the software |
| **Company or Serko** | Serko Limited, a New Zealand incorporated company that owns a wholly-owned subsidiary in Australia |
| **FTE** | Full-time equivalent |
| **FX** | Foreign exchange |
| **FY** | Financial year ended, or ending, on 31 March (unless otherwise stated) |
| **GST** | Goods and Services Tax |
| **IFRS** | International Financial Reporting Standards |
| **Incharge or Incharge Expense Management business** | The Australian-based travel management expense business, Incharge Group Pty Limited, that Serko acquired on 20 December 2013 |
| **Independent Directors** | Simon Botherway, Claudia Batten and Clyde McConaghy |
| **IPO** | Initial Public Offering |
| **Listing** | The date Serko shares started trading on the NZX Main Board, 24 June 2014 |

| | |
|---|---|
| **NZ** | New Zealand |
| **NZD or NZ$** | New Zealand dollar |
| **NZ GAAP or GAAP** | New Zealand Generally Accepted Accounting Practice |
| **NZ IAS** | New Zealand equivalents to International Accounting Standards |
| **NZ IFRS or IFRS** | New Zealand equivalents to International Financial Reporting Standards |
| **NZX** | NZX Limited, also known as the New Zealand Stock Exchange |
| **NZX Listing Rules or Listing Rules** | The Listing Rules applying to the NZX Main Board as amended from time to time |
| **NZX Main Board** | The New Zealand main board equity security market operated by NZX |
| **PFI** | Prospective Financial Information |
| **Prospectus or IPO Prospectus** | The prospectus in respect of Serko's IPO dated 26 May 2014 |
| **R&D** | Research and Development expenditure |
| **Serko or the Company** | Serko Limited |
| **Serko Mobile** | Serko's mobile app for iPhones and Android devices that gives users access to information and travel booking functionality on their mobile devices |
| **Serko Online** | Serko's cloud-based online travel booking solution for large organisations |
| **TMC, Travel Agency or Travel Management Company** | A travel management company that provides specialised travel-related services to corporate customers |
| **USD or US$** | United States dollar |
| **$** | All figures are in New Zealand dollars, unless otherwise stated |

# CORPORATE DIRECTORY AND SHAREHOLDER ENQUIRIES

Serko is a company incorporated with limited liability under the New Zealand Companies Act 1993 (Companies Office registration number 1927488).

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|---|---|
| **Registered Office** | Saatchi Building<br>Unit 14D<br>125 The Strand<br>Parnell<br>Auckland 1010<br>New Zealand<br>+64 9 309 4754<br>www.serko.com<br>ARBN: 611 613 980 |
| **Directors**<br>(as at date of this *Annual Report*) | Simon Botherway (Chairman)<br>Claudia Batten<br>Robert (Clyde) McConaghy<br>Darrin Grafton<br>Robert (Bob) Shaw |
| **Share Registrar** | Link Market Services Limited<br>Level 7, Zurich House<br>21 Queen Street<br>Auckland 1010<br>New Zealand<br>+64 9 375 5998<br>serko@linkmarketservices.co.nz |
| **Auditor** | Ernst & Young<br>Auckland<br>EY Building<br>2 Takutai Square<br>Britomart<br>Auckland 1010<br>+64 9 377 4790 |

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