

The Future of Predictive Commerce



# Interim Report

31 December 2016



## Summary

✓ ARR<sup>1</sup> of  
**\$31.1m**

✓ Net loss of  
**\$1.3m**

✓ Cash  
**\$6.0m**

✓ Customer retention  
**84%**  
by value

✓ Gross margin of  
**74%**

✓ Customer mix  
**improving**

1. Annualised Recurring Revenue (ARR) is a non-GAAP financial performance measure used internally by SLI as a basis for its expected forward revenue. ARR is calculated based on the subscription revenue from the existing customer base in the reference month and then annualised using exchange rates at the end of the reference month. ARR does not account for changes in behaviour of customers. For the Site Champion component of ARR it is necessary to apply judgement to mitigate the effects of one-off events that impact the reference month revenue of the calculation.



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# Chairman's / Chief Executive's Report

Dear Shareholders,

SLI has undergone a period of tremendous change in the past year as we have worked to rebuild momentum in our business. We have introduced new sales and marketing strategies and disciplines, and driven operational improvements across a broad range of areas in our business.

We are starting to see early signs that the changes we are making may be able to rebuild momentum in the second half.

Annualised Recurring Revenue (ARR), which shows our committed future expected revenue at a point in time and is a key measure of our financial and operational performance, has increased modestly on a constant currency basis in the six months to 31 December 2016.

The new sales team is becoming more effective in closing new business and selling more services to existing customers. We are successfully transitioning new products to the market and driving improvements in customer retention.

In the second quarter of the financial year, we have seen what we believe is an encouraging improvement in the effectiveness of our efforts to build the profile and recognition of our business among target customers.

The company is in a strong financial position with \$6.0 million cash on hand, down from \$6.8 million at the end of June 2016, but

in line with internal targets. As previously indicated, we believe we have sufficient capital to meet our current business plans but we continue to monitor cashflows and remain committed to achieving cashflow breakeven without an additional capital rise.

## Recurring Revenue Performance

ARR grew by \$90,000 on a constant currency basis to \$31.1m. This result represents a constant currency 0.3% increase in ARR in the six months to 31 December 2016 and a sharp improvement over the 7.9% constant currency reduction in the six months to June 2016. Growth in the six months was led by the EMEA region, which added \$321,000 to ARR. It was followed by the APAC region, which added \$162,000. ARR in the Americas fell by \$393,000.

New customer growth remains our focus for both marketing and sales globally. We are pleased with the progress we have made in sales to large customers. Our success was most evident in the two major wins we achieved during the period: US homeware retailer Crate & Barrel (an Internet Retailer Magazine Top 100 Global e-commerce Company) and US motor parts retailer Rocky Mountain ATV.

Average annual contract values for new customers signed up in the half increased to \$40,000 from \$32,000 for the previous six months, indicating an improving customer mix.



## Customer Retention

Our customer retention rate on an annualised basis was 84%, in line with the rate we achieved in the year to 30 June 2016. However, if we look at the last six months alone, our customer retention rate improved to an annualised rate of 87%, showing we are trending in the right direction.

## Financial Performance


Operating revenue for the six months to 31 December 2016 was \$15.5m, down 10.9% from the same period a year ago. This decrease was due to the strength of the New Zealand dollar, and the customer losses incurred in the fourth quarter of the 2016 financial year with the expected impact of both of these events signalled to the market when we released our results in August last year.

Net loss before tax for the half year was \$1.3 million compared to a loss of \$446,000 in the prior year's period, reflecting continuing investment in the business.

## Focus on Sales and Marketing Improvements

In our most recent quarter new marketing initiatives have begun to gain traction.

The improvements have included the repositioning of the company, the launch of a new website, and the introduction of a world-wide sales training programme. We also introduced new tools to measure campaign effectiveness and manage the pipeline of sales leads. Although these initiatives have not yet increased ARR we are optimistic that we will see the benefit of these in the short term.



Growth in the six months was led by the EMEA region, which added \$321,000 to ARR.

## Increased Investment in our Product

We have seen the market respond favourably to our market-leading machine learning and personalisation offerings. Our approach is aligned with broad thematic trends for personalisation in e-commerce markets and we see no letup in these developments.

During the first half of the current financial year we strengthened our position at the forefront of the market with the launch of SLI Enhanced Search Personalisation (ESP)<sup>™</sup>, which personalises the results shown on search and navigation pages in real time.

We also launched a new section in our Commerce Console that gives control over Site Champion, our search engine optimisation product, and a new JavaScript tracking technology that provides more comprehensive data for personalising the shopping experience.

To extend our leadership and to exploit the potential for further improvements in personalisation and e-commerce site conversion rates, we have identified a need to invest more in our product.

Our development goals include: providing support for HTTP2, a major revision of the internet network protocol, which promises speed and performance improvements for retailers; adding SSL certificate management to our Commerce Console; and releasing a new analytics platform, which will provide enhanced scalability and flexibility over our current systems.

We also plan to make improvements to Site Champion and accelerate already-planned product enhancements. Our mission remains: to provide an industry-leading product-discovery platform that is indispensable to our customers.

## Summary

SLI is well positioned to capture the continuing strong growth in e-commerce markets and the trend for our customers to personalise visitors' experiences on their websites to drive sales improvements.

We are deploying our sales and marketing resources more efficiently and will be investing more in research and development to ensure we maintain our machine-learning market leadership, while carefully managing our cash reserves.

We are also encouraged by the signs that the changes we have made will drive improvements in our growth pipeline and we are optimistic we will start realising the benefits in the latter half of this calendar year.



A stylized, handwritten signature of Greg Cross in dark ink.

**Greg Cross**  
Chairman

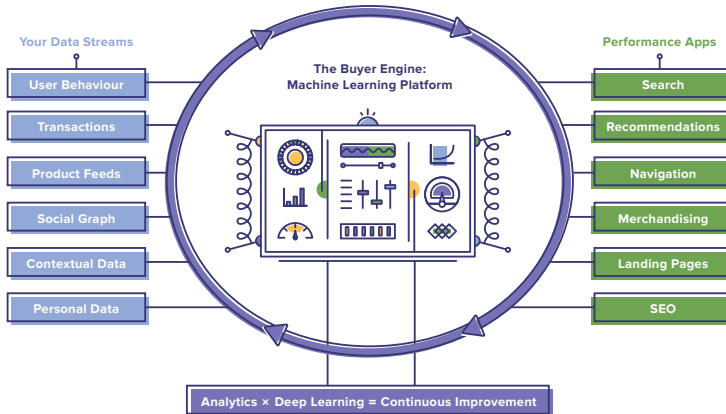


A stylized, handwritten signature of Chris Brennan in dark ink.

**Chris Brennan**  
Chief Executive Officer



# The E-commerce Accelerator



The first half of the fiscal year was transformational for SLI. We unveiled a new brand and with it introduced the true power behind SLI Learning Search® and all SLI apps – the SLI Buyer Engine™. The SLI Buyer Engine is the cloud-based, machine-learning platform that answers the single most important question: *“What is your shopper most likely to buy right now?”*

The SLI Buyer Engine is at the heart of all our solutions and our competitive advantage.

SLI is committed to delivering e-commerce solutions that arm our customers with a competitive edge and position our company as the leader in product discovery. Other advances in the first half of the fiscal year include:

- The launch of SLI Enhanced Search Personalisation (ESP)™
- Additional configuration to Site Champion
- A new website showcasing our new brand



## The Next Level in Mind Reading – Enhanced Search Personalisation (ESP)™

Personalisation is the next frontier in e-commerce. SLI responded to the demand with a solution that instantly and dynamically personalises the shopping experience for both first-time visitors and loyal shoppers. SLI ESP™ adds contextual personalisation to SLI Learning Search® and SLI Learning Navigation®, empowering retailers to deliver a better customer experience.



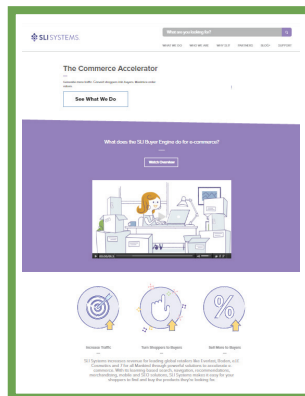




## Meaningful Control over SEO

We've given retailers better monitoring and more control over Site Champion®, our SEO solution for long-tail searches. The new Site Champion module:

- Provides one central location for metrics and page configuration
- Lets retailers optimise the performance of pages by adding and editing meta tags and other content
- Allows users to exclude any unwanted pages and specify how to handle requests to pages once they are removed



## SLI Reveals a Brand for the Future

The SLI website now showcases a retro modern look and feel, new messaging and updated product icons along with a 90-second animated nutshell video. Our new content site – Add To Cart – features how-to articles, blog posts and videos for commerce leaders.

## A Powerful Suite of Solutions



BUYER ENGINE



ESP



LEARNING  
NAVIGATION



LEARNING  
SEARCH



RICH AUTO  
COMPLETE



LEARNING  
RECOMMENDATIONS



DYNAMIC  
PRODUCT  
BANNERS



SLI  
MOBILE



MERCHANDISING



SEO



LANDING  
PAGE  
CREATOR



## Proven Customer Success

Retailers around the world partner with SLI Systems to grow sales and delight customers. See how retailers have improved their business, and how they have been rewarded for their success.

*Closet.*

LONDON

**4 x higher**  
conversions for search users

“Our plans are ambitious – that’s why we choose to work with top online retail technology brands like SLI, as they allow us to punch above our weight.”

— Rachel Perrett, Brand Manager, Closet London

**Pet360.com**  
Pet Parenting. Simplified.

**20% increase**  
in revenue from search

“We can reliably predict the outcome of every change we make with SLI. That is a huge time savings and benefit to our day-to-day management of the site.”

— Nick Ashton, Manager, Site Experience, Pet360

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## SLI Turns Customers into Industry Leaders

**SurfStitch**

**Power Retail All Star Bash:**  
Top Apparel Retailer 2016

**EVERLAST**  


**Retail TouchPoints Award:**  
Customer Engagement Award  
(Silver Winner)



# SLI in the Spotlight

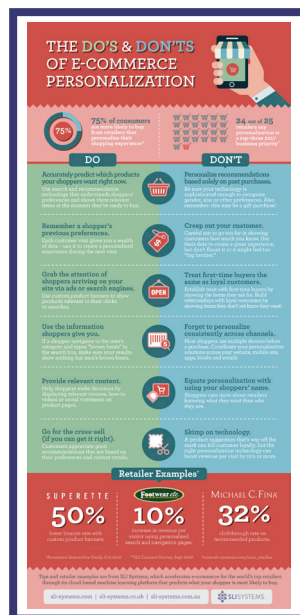


## News Worth Barking About

Analysis of 3.5 million search queries across our clients' pet product sites revealed dogs would receive 2.5X more gifts than cats during the 2016 holiday season. The trend was covered by major news outlets, including Retail TouchPoints, AdWeek and WTVY.com.

## The Do's and Don'ts of E-commerce Personalisation

Seventy-five percent of consumers are more likely to buy from retailers who personalise the online shopping experience. We showed retailers how to personalise to maximum benefit with an infographic that was featured in MultiChannel Merchant, a leading online publication for e-commerce decision makers.



## Customer Behaviour Provides the Most Relevant Results

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The **IRUK Top500 Merchandising Report 2016** quoted Ian Scarr, SLI Systems regional VP EMEA, on how retailers can merchandise from search results.

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“[SLI] can learn from information such as customer behaviour on the website to provide the most relevant results. Your users are merchandising your site for your other users. It’s their buying, clicking and their interaction with your keywords that’s re-ranking the most popular products to the top – and making you more money.”

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## Seven Merchandising Strategies to Drive E-commerce Revenue

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Internet Retailer published insight from Matt Sparrow, SLI Systems senior product manager, on how data mined from site search activity allows retailers to anticipate market changes and trends, so they can align their merchandising practices accordingly.

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“Site search data lets you listen to and learn more about your customers, and drive merchandising practices that create more relevant and engaging online experiences.”

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# Financial Statements

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## Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2016

|  | Unaudited<br>6 months<br>ended 31 Dec | Unaudited<br>6 months<br>ended 31 Dec | Audited<br>12 months<br>ended 30 Jun |
|--|---------------------------------------|---------------------------------------|--------------------------------------|
| NOTE   | 2016<br>\$'000                        | 2015<br>\$'000                        | 2016<br>\$'000                       |
| Operating revenue  | 15,482                                | 17,367                                | 35,006                               |
| Government grants received and receivable  | 248                                   | 57                                    | 646                                  |
| <b>Total revenue and other income</b>  | <b>15,730</b>                         | <b>17,424</b>                         | <b>35,652</b>                        |
| Operating expenses   | (6,714)                               | (7,062)                               | (14,803)                             |
| Employee entitlements  | (10,291)                              | (10,826)                              | (21,050)                             |
| <b>Operating (loss) before finance income</b>  | <b>(1,275)</b>                        | <b>(464)</b>                          | <b>(201)</b>                         |
| Finance income   | 25                                    | 18                                    | 39                                   |
| <b>Net finance income</b>  | <b>25</b>                             | <b>18</b>                             | <b>39</b>                            |
| <b>(Loss) before tax</b>   | <b>(1,250)</b>                        | <b>(446)</b>                          | <b>(162)</b>                         |
| Income tax (expense)   | (33)                                  | (56)                                  | (77)                                 |
| <b>(Loss) for the period</b>   | <b>(1,283)</b>                        | <b>(502)</b>                          | <b>(239)</b>                         |
| <b>Other comprehensive income recycled through profit and loss</b>                               |                                       |                                       |                                      |
| Currency translation movement  | (102)                                 | (185)                                 | (314)                                |
| <b>Total comprehensive (loss) for the period attributable to the shareholders of the company</b> | <b>(1,385)</b>                        | <b>(687)</b>                          | <b>(553)</b>                         |
| <b>(Loss) per share</b>  |                                       |                                       |                                      |
| Basic and diluted (loss) per share   | (\$0.021)                             | (\$0.008)                             | (\$0.004)                            |

The accompanying notes form part of, and should be read in conjunction with, these financial statements.



## Consolidated Statement of Changes in Equity

For the six months ended 31 December 2016

| Unaudited  | Share Capital | Share Option Reserve | Translation Reserve | Accumulated Losses | Total Equity   |
|--|---------------|----------------------|---------------------|--------------------|----------------|
|  | \$'000        | \$'000               | \$'000              | \$'000             | \$'000         |
| <b>Opening balance at 1 July 2016</b>            | <b>18,771</b> | <b>1,848</b>         | <b>(37)</b>         | <b>(14,797)</b>    | <b>5,785</b>   |
| (Loss) for the period                            | -             | -                    | -                   | (1,283)            | (1,283)        |
| Currency translation movement                    | -             | -                    | (102)               | -                  | (102)          |
| <b>Total comprehensive income for the period</b> | <b>-</b>      | <b>-</b>             | <b>(102)</b>        | <b>(1,283)</b>     | <b>(1,385)</b> |
| <b>Transactions with owners</b>                  |               |                      |                     |                    |                |
| Share options                                    |               |                      |                     |                    |                |
| - Share options exercised during period          | -             | -                    | -                   | -                  | -              |
| - Share option expense for the period            | -             | 484                  | -                   | -                  | 484            |
| - Share options expired for the period           | -             | (368)                | -                   | 368                | -              |
| <b>Balance at 31 December 2016</b>               | <b>18,771</b> | <b>1,964</b>         | <b>(139)</b>        | <b>(15,712)</b>    | <b>4,884</b>   |

| Unaudited  | Share Capital | Share Option Reserve | Translation Reserve | Accumulated Losses | Total Equity |
|--|---------------|----------------------|---------------------|--------------------|--------------|
|  | \$'000        | \$'000               | \$'000              | \$'000             | \$'000       |
| <b>Opening balance at 1 July 2015</b>            | <b>18,125</b> | <b>1,492</b>         | <b>277</b>          | <b>(15,168)</b>    | <b>4,726</b> |
| (Loss) for the period                            | -             | -                    | -                   | (502)              | (502)        |
| Currency translation movement                    | -             | -                    | (185)               | -                  | (185)        |
| <b>Total comprehensive income for the period</b> | <b>-</b>      | <b>-</b>             | <b>(185)</b>        | <b>(502)</b>       | <b>(687)</b> |
| <b>Transactions with owners</b>                  |               |                      |                     |                    |              |
| Share options                                    |               |                      |                     |                    |              |
| - Share options exercised during period          | 277           | (39)                 | -                   | -                  | 238          |
| - Share option expense for the period            | -             | 348                  | -                   | -                  | 348          |
| - Share options expired for the period           | -             | (203)                | -                   | 203                | -            |
| <b>Balance at 31 December 2015</b>               | <b>18,402</b> | <b>1,598</b>         | <b>92</b>           | <b>(15,467)</b>    | <b>4,625</b> |

The accompanying notes form part of, and should be read in conjunction with, these financial statements.



## Consolidated Balance Sheet

As at 31 December 2016

|  |      | Unaudited<br>31 Dec | Unaudited<br>31 Dec | Audited<br>30 Jun  |
|--|------|---------------------|---------------------|--------------------|
|  | NOTE | 2016<br>\$'000      | 2015<br>\$'000      | 2016<br>\$'000     |
| <b>ASSETS</b>                                    |      |                     |                     |                    |
| <b>Current assets</b>                            |      |                     |                     |                    |
| Cash and cash equivalents                        |      | 6,012               | 5,606               | 6,765              |
| Trade and other receivables                      |      | 5,795               | 6,843               | 5,876              |
| <b>Total current assets</b>                      |      | <b>11,807</b>       | <b>12,449</b>       | <b>12,641</b>      |
| <b>Non-current assets</b>                        |      |                     |                     |                    |
| Deferred tax assets                              |      | 675                 | 502                 | 675                |
| Property, plant and equipment                    |      | 1,208               | 1,438               | 1,316              |
| Intangible assets                                |      | 182                 | 77                  | 65                 |
| <b>Total non-current assets</b>                  |      | <b>2,065</b>        | <b>2,017</b>        | <b>2,056</b>       |
| <b>Total assets</b>                              |      | <b>13,872</b>       | <b>14,466</b>       | <b>14,697</b>      |
| <b>LIABILITIES</b>                               |      |                     |                     |                    |
| <b>Current liabilities</b>                       |      |                     |                     |                    |
| Taxation payable                                 |      | 53                  | 76                  | 34                 |
| Trade and other payables                         |      | 6,850               | 7,670               | 7,035              |
| Employee benefits                                |      | 2,051               | 2,063               | 1,801              |
| <b>Total current liabilities</b>                 |      | <b>8,954</b>        | <b>9,809</b>        | <b>8,870</b>       |
| <b>Non-current liabilities</b>                   |      |                     |                     |                    |
| Employee benefits                                |      | 21                  | 20                  | 29                 |
| Deferred tax liabilities                         |      | 13                  | 12                  | 13                 |
| <b>Total non-current liabilities</b>             |      | <b>34</b>           | <b>32</b>           | <b>42</b>          |
| <b>Total liabilities</b>                         |      | <b>8,988</b>        | <b>9,841</b>        | <b>8,912</b>       |
| <b>Net assets</b>                                |      | <b>4,884</b>        | <b>4,625</b>        | <b>5,785</b>       |
| <b>EQUITY</b>                                    |      |                     |                     |                    |
| Share capital                                    | 4    | 18,771              | 18,402              | 18,771             |
| Reserves   |      | 1,825               | 1,690               | 1,811              |
| Accumulated losses                               |      | (15,712)            | (15,467)            | (14,797)           |
| <b>Total equity</b>                              |      | <b>4,884</b>        | <b>4,625</b>        | <b>5,785</b>       |
|  |      | <b>Unaudited</b>    | <b>Unaudited</b>    | <b>Audited</b>     |
|  |      | <b>31 Dec 2016</b>  | <b>31 Dec 2015</b>  | <b>30 Jun 2016</b> |
| Net tangible asset backing per ordinary security |      | \$0.08              | \$0.07              | \$0.09             |

The accompanying notes form part of, and should be read in conjunction with, these financial statements.





## Consolidated Statement of Cash Flows

For the six months ended 31 December 2016

|   | Unaudited<br>6 months<br>ended 31 Dec | Unaudited<br>6 months<br>ended 31 Dec | Audited<br>12 months<br>ended 30 Jun |
|---|---------------------------------------|---------------------------------------|--------------------------------------|
|   | 2016<br>\$'000                        | 2015<br>\$'000                        | 2016<br>\$'000                       |
| NOTE  |                                       |                                       |                                      |
| <b>Cash flows from operating activities</b>                 |                                       |                                       |                                      |
| <b>Cash provided from:</b>                                  |                                       |                                       |                                      |
| Receipts from customers                                     | 15,499                                | 18,109                                | 36,148                               |
| Interest received   | 23                                    | 14                                    | 111                                  |
| Net GST received/(paid)                                     | 71                                    | (19)                                  | (23)                                 |
| Government grants   | 325                                   | 100                                   | 558                                  |
| <b>Cash was applied to:</b>                                 |                                       |                                       |                                      |
| Payments made to suppliers and employees                    | (16,473)                              | (18,354)                              | (35,936)                             |
| Income tax (paid)   | (14)                                  | (4)                                   | (50)                                 |
| <b>Net cash (outflow)/inflow from operating activities</b>  | <b>3</b>                              | <b>(154)</b>                          | <b>808</b>                           |
| <b>Cash flows from investing activities</b>                 |                                       |                                       |                                      |
| <b>Cash was provided (applied)/from to:</b>                 |                                       |                                       |                                      |
| Purchase of property, plant and equipment                   | (47)                                  | (56)                                  | (140)                                |
| Sale of property, plant and equipment                       | 2                                     | 1                                     | -                                    |
| Purchase of intangibles                                     | (139)                                 | (5)                                   | (23)                                 |
| <b>Net cash (outflow) from investing activities</b>         | <b>(184)</b>                          | <b>(60)</b>                           | <b>(163)</b>                         |
| <b>Cash flows from financing activities</b>                 |                                       |                                       |                                      |
| <b>Cash was provided from:</b>                              |                                       |                                       |                                      |
| Cash received from share options exercised                  | -                                     | 238                                   | 538                                  |
| <b>Net cash inflow from financing activities</b>            | <b>-</b>                              | <b>238</b>                            | <b>538</b>                           |
| <b>Net (decrease)/increase in cash and cash equivalents</b> | <b>(753)</b>                          | <b>24</b>                             | <b>1,183</b>                         |
| Cash and cash equivalents at the beginning of the period    | 6,765                                 | 5,582                                 | 5,582                                |
| <b>Cash and cash equivalents at the end of the period</b>   | <b>6,012</b>                          | <b>5,606</b>                          | <b>6,765</b>                         |

The accompanying notes form part of, and should be read in conjunction with, these financial statements.



## Notes to the Financial Statements

### 1. General Information

SLI Systems Limited (the Company, SLI) and its subsidiaries S.L.I. Systems, Inc., SLI Systems (UK) Limited and SLI Systems (Japan) K.K (together the Group) provide site search and navigation technologies to connect site visitors with products on e-commerce websites. The Group has operations in New Zealand, the United States, Australia, the United Kingdom and Japan.

The consolidated financial statements for the Group for the period ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 22 February 2017.

### 2. Basis of preparation

These general purpose financial statements for the six months ended 31 December 2016 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and consequently do not include all the information required for full financial statements. These condensed Group interim financial statements should be read in conjunction with the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2016, which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The interim financial statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the New Zealand Stock Exchange (NZX).

SLI Systems Limited is registered under the Companies Act 1993 and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013.

The Company and Group are designed as a for-profit entity for financial reporting purposes.

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of SLI Systems Limited and its Subsidiaries for the year ended 30 June 2016.

There have been no significant changes in accounting policies during the period.

### 3. Reconciliation from the net (loss) after tax to the net cash from operating activities

|  | Unaudited<br>6 months<br>ended 31 Dec | Unaudited<br>6 months<br>ended 31 Dec | Audited<br>12 months<br>ended 30 Jun |
|--|---------------------------------------|---------------------------------------|--------------------------------------|
|  | 2016<br>\$'000                        | 2015<br>\$'000                        | 2016<br>\$'000                       |
| Net (loss) after tax                                     | (1,283)                               | (502)                                 | (239)                                |
| <b>Adjustments</b>                                       |                                       |                                       |                                      |
| Depreciation   | 147                                   | 193                                   | 392                                  |
| Amortisation   | 22                                    | 27                                    | 57                                   |
| (Loss) on currency translation movement                  | (96)                                  | (179)                                 | (300)                                |
| Share options expense                                    | 484                                   | 348                                   | 888                                  |
| <b>Changes in working capital items</b>                  |                                       |                                       |                                      |
| (Increase)/decrease in trade receivables and prepayments | (56)                                  | 494                                   | 835                                  |
| Increase/(decrease) in trade payables and accruals       | 208                                   | (583)                                 | (864)                                |
| (Increase)/decrease in GST                               | (14)                                  | (4)                                   | 15                                   |
| Decrease/(increase) in tax                               | 19                                    | 52                                    | 24                                   |
| <b>Net cash (outflow) from operating activities</b>      | <b>(569)</b>                          | <b>(154)</b>                          | <b>808</b>                           |

### 4. Contributed equity

#### (a) Ordinary Share Capital

| Current period                                 | Number of<br>Ordinary<br>Shares          | \$'000        |
|--|--|---------------|
| <b>Balance at 1 July 2016 (audited)</b>        | <b>62,260,816</b>                        | <b>18,771</b> |
| Share options exercised                        | -  | -             |
| <b>Balance at 31 December 2016 (unaudited)</b> | <b>62,260,816</b>                        | <b>18,771</b> |
| <b>Prior period</b>                            | <b>Number of<br/>Ordinary<br/>Shares</b> | <b>\$'000</b> |
| <b>Balance at 1 July 2015 (audited)</b>        | <b>61,162,116</b>                        | <b>18,125</b> |
| Share options exercised                        | 467,196                                  | 277           |
| <b>Balance at 31 December 2015 (unaudited)</b> | <b>61,629,312</b>                        | <b>18,402</b> |

All shares are issued and fully paid (no par value).



## Notes to the Financial Statements

### (b) Redeemable Shares

Redeemable shares have the same rights and terms and rank uniformly in all respects with the ordinary shares in the Company.

In satisfaction of the issue price of the redeemable shares, the Company provided loans to the redeemable shareholders. The loans provided were interest free, had recourse only against the redeemable shares and were repayable in full on the third anniversary of the issue date, or some other date under certain conditions. The substance of these transactions was similar in nature to the issuing of share options and as such were valued in accordance with Note 5 using the Black-Scholes pricing model. The redeemable shares vested immediately.

On 4 November 2016 the redeemable shares issued to Greg Cross, Sarah Smith and Andrew Lark were cancelled by SLI. No cash was exchanged in relation to these transactions and the loans were terminated on this date.

SLI has no redeemable shares on issue as at 31 December 2016.

## 5. Share options

Options to subscribe for shares have been issued to certain directors and employees.

Unless otherwise determined by the Board of Directors options shall be exercisable to the extent of 1/4 of the options as of the one year anniversary after the grant date, then an additional 1/36th of the remaining balance on a monthly basis, so that the options are fully exercisable on the fourth anniversary of the grant date. The options are no longer exercisable on the first to occur of i) the 10th anniversary of the grant date, ii) the last date for exercising the option following termination of the Optionee's Service or iii) its termination in connection with a change in control in the Company.

The functional and presentation currency of the financial statements is in New Zealand dollars (NZ\$). However, a significant portion of the options have an exercise price denominated in US dollars (US\$) so the tables below are presented in US\$ where appropriate.

| Current period                                   | Number of Options | Weighted Average Exercise Price US\$ |
|--|-------------------|--------------------------------------|
|  | 2016              | 2016                                 |
| <b>Reconciliation of outstanding options</b>     |                   |                                      |
| Balance at 1 July 2016                           | 4,601,944         | 0.66                                 |
| Expired during the period                        | (629,287)         | 0.99                                 |
| Exercised during the period                      | -                 | -                                    |
| Issued during the period                         | 105,000           | 0.48                                 |
| Options issued from exercising or expiry of SARs | 867,336           | 0.54                                 |
| <b>Balance at 31 December 2016</b>               | <b>4,944,993</b>  | <b>0.59</b>                          |
| Exercisable at 31 December 2016                  | 4,381,455         | 0.56                                 |

| Prior period                                 | Number of Options | Weighted Average Exercise Price US\$ |
|--|-------------------|--------------------------------------|
|  | 2015              | 2015                                 |
| <b>Reconciliation of outstanding options</b> |                   |                                      |
| Balance at 1 July 2015                       | 7,191,927         | 0.63                                 |
| Expired during the period                    | (1,113,913)       | 0.82                                 |
| Exercised during the period                  | (467,196)         | 0.33                                 |
| Issued during the period                     | 380,000           | 0.57                                 |
| <b>Balance at 31 December 2015</b>           | <b>5,990,818</b>  | <b>0.63</b>                          |
| Exercisable at 31 December 2015              | 4,596,070         | 0.57                                 |

The weighted average exercise price of the total options at the end of the period is US\$ 56 cents which equates to NZ\$ 80 cents at 31 December 2016 exchange rate.

The tables above include the expiry of unlisted redeemable shares as detailed in note 4.



## Notes to the Financial Statements

Share options outstanding at the end of the period have the following characteristics:

| Number of options | Exercise Price per Share | Weighted Average Contractual Life remaining at 31 December 2016 (years) |
|-------------------|--------------------------|---|
| 340,000           | US \$0.29 - \$0.33       | 2.0   |
| 1,785,889         | US \$0.3333              | 3.3   |
| 220,875           | US \$0.68                | 5.4   |
| 401,138           | US \$0.75                | 5.7   |
| 129,600           | US \$0.78                | 6.2   |
| 474,253           | NZ \$0.71 - \$0.80       | 9.0   |
| 813,083           | NZ \$0.81 - \$1.00       | 8.7   |
| 158,700           | NZ \$1.01 - \$1.20       | 8.0   |
| 67,900            | NZ \$1.21 - \$1.40       | 7.7   |
| 88,200            | NZ \$1.41 - \$1.60       | 6.9   |
| 186,767           | NZ \$1.61 - \$1.80       | 7.4   |
| 140,587           | NZ \$1.81 - \$2.00       | 6.6   |
| 55,200            | NZ \$2.01 - \$2.20       | 6.8   |
| 27,600            | NZ \$2.21 - \$2.40       | 7.3   |
| 55,200            | NZ \$2.41 - \$2.60       | 7.2   |

### Measurement of fair value

The fair value of the options granted was measured based on the Black-Scholes pricing model. Expected volatility is estimated by considering historic average share price volatility for both SLI and its peers.

The inputs used in the measurement of the fair values at grant date of the share based payment plans were as follows for US\$ options:

| US\$ Options                                      | Dec 2016   | Dec 2015   | Jun 2016   |
|---|------------|------------|------------|
| Share price at grant date (weighted average US\$) | 0.41       | 0.41       | 0.41       |
| Exercise price (weighted average US\$)            | 0.43       | 0.42       | 0.43       |
| Expected volatility (weighted average)            | 20% to 30% | 20% to 30% | 20% to 30% |
| Expected life (weighted average)                  | 4          | 4          | 4          |
| Risk-free interest rate (weighted average)        | 3.0%       | 3.0%       | 3.0%       |
| Fair value at grant date (weighted average US\$)  | 0.08       | 0.09       | 0.08       |



The inputs used in the measurement of the fair values at grant date of the share based payment plans were as follows for NZ\$ options:

| <b>NZ\$ Options</b>                               | <b>Dec 2016</b> | <b>Dec 2015</b> | <b>Jun 2016</b> |
|---|-----------------|-----------------|-----------------|
| Share price at grant date (weighted average NZ\$) | 1.00            | 1.41            | 1.50            |
| Exercise price (weighted average NZ\$)            | 1.14            | 1.40            | 1.49            |
| Expected volatility (weighted average)            | 30% to 40%      | 30%             | 30%             |
| Expected life (weighted average)                  | 4               | 4               | 4               |
| Risk-free interest rate (weighted average)        | 3.2%            | 3.5%            | 3.5%            |
| Fair value at grant date (weighted average NZ\$)  | 0.34            | 0.43            | 0.46            |

## Directors

The following directors hold the following number of options as at 31 December 2016:

|  | <b>Exercise Price</b> |         |
|--|-----------------------|---------|
| Christopher Brennan (issued in the current period) | NZ \$0.83             | 613,083 |
| Greg Cross   | US \$0.33             | 120,000 |
| Shaun Ryan   | US \$0.33             | 49,260  |
| Shaun Ryan   | NZ \$0.94             | 200,000 |

## 6. Share Appreciation Rights

Share Appreciation Rights (SARs), a share based payment plan, were developed as a Long Term Incentive plan for key US executives and provides the company with the flexibility to settle any share appreciation in cash or shares. An appropriate Long Term Incentive plan is critical to attracting and retaining key executive talent in the US market.

The terms and conditions, valuation basis and other required disclosures for these share based payments are set out below.



## Notes to the Financial Statements

The SARs will vest to the extent of 1/4 of the SARs as of the one year anniversary after the grant date, then an additional 1/36th of the remaining balance on a monthly basis, so that the SARs are fully vested on the fourth anniversary of the grant date. The SARs shall be exercisable to the extent of 25% of the total number of SARs issued to the recipient at the one year anniversary of the grant date, then an additional 25% of the initially issued number of SARs will be able to be exercised on each of the second, third and fourth anniversaries of the base grant date. The SARs can only be exercised during the 30 day period commencing on the appropriate anniversary date and if they are not exercised they will terminate after the expiry of the relevant 30 day period.

On the date on which the SARs are either (i) exercised or (ii) terminated, subject to Board approval, additional fully vested share options will be issued equal to the number of such exercised or terminated SARs. The exercise price of the share options will be the greater of the share price on the original grant date of the SARs and the share price on the day the share options are granted. The options will expire on the 10th anniversary of the grant date of the SARs.

Upon exercise of SARs, the recipient will be entitled to receive a payment equal to the increase in share price between the grant date and the exercise date. Such payment can be made either in cash or by the issue of SLI NZ ordinary shares, at market value, at the discretion of the Board of Directors.

The share based payment expense includes both the SARs and additional options and are required to be recognised from the grant date of the SARs. Based on this choice of settlement and SLI's ability and the likelihood to settle in shares, the SARs and options are considered to be equity-settled share based payments.

| Current period                            | Number<br>of SARs | Weighted<br>Average<br>Exercise<br>Price NZ\$ |
|---|-------------------|---|
|   | 2016              | 2016  |
| <b>Reconciliation of outstanding SARs</b> |                   |   |
| Balance at 1 July 2016                    | 4,583,757         | 0.85  |
| Expired during the period                 | (867,336)         | 0.81  |
| Exercised during the period               | -                 | -   |
| Issued during the period                  | -                 | -   |
| <b>Balance at 31 December 2016</b>        | <b>3,716,421</b>  | <b>0.85</b>                                   |
| Exercisable at 31 December 2016           | -                 | -   |



| Prior period                              | Number of SARs   | Weighted Average Exercise Price NZ\$ |
|---|------------------|--------------------------------------|
|   | 2015             | 2015                                 |
| <b>Reconciliation of outstanding SARs</b> |                  |                                      |
| Balance at 1 July 2015                    | -                | -                                    |
| Expired during the period                 | -                | -                                    |
| Exercised during the period               | -                | -                                    |
| Issued during the period                  | 3,469,343        | 0.81                                 |
| <b>Balance at 31 December 2015</b>        | <b>3,469,343</b> | <b>0.81</b>                          |
| Exercisable at 31 December 2015           | -                | -                                    |

SARs outstanding at the end of the period have the following characteristics:

| Number of SARs | Exercise Price per Share | Weighted Average Contractual Life remaining at 31 December 2016 (years) |
|----------------|--------------------------|---|
| 439,785        | NZ \$0.74                | 1.51  |
| 762,758        | NZ \$0.77                | 1.82  |
| 1,839,249      | NZ \$0.83                | 1.74  |
| 674,629        | NZ \$1.09                | 1.80  |

#### Measurement of fair value

The fair values of the SARs and additional option grants were measured based on the Black-Scholes pricing model. Expected volatility is estimated by considering historic average share price volatility for a group of SLI's NZX listed peers. A simulation model has been used to determine the exercise price of options being the future share price at the time the associated SARs are exercised and the related options are granted. The exercise price of the additional options will be the greater of the market price of the SARs on exercise or the share price at grant date of the SARs.



## Notes to the Financial Statements

The inputs used in the measurement of the fair values at grant date were as follows for NZ\$ SARs and additional options:

| <b>NZ\$ SARs</b>                                 | <b>Dec 2016</b> | <b>Dec 2015</b> | <b>Jun 2016</b> |
|--|-----------------|-----------------|-----------------|
| Expected volatility (weighted average)           | 30%             | 30%             | 30%             |
| Expected life (weighted average)                 | 2.5 years       | 2.5 years       | 2.5 years       |
| Risk-free interest rate (weighted average)       | 2.7%            | 2.7%            | 2.7%            |
| Fair value at grant date (weighted average NZ\$) | 0.19            | 0.17            | 0.18            |

| <b>NZ\$ Additional options</b>                   | <b>Dec 2016</b> | <b>Dec 2015</b> | <b>Jun 2016</b> |
|--|-----------------|-----------------|-----------------|
| Expected volatility (weighted average)           | 30%             | 30%             | 30%             |
| Expected life (weighted average)                 | 4 years         | 4 years         | 4 years         |
| Risk-free interest rate (weighted average)       | 2.7%            | 2.7%            | 2.7%            |
| Fair value at grant date (weighted average NZ\$) | 0.20            | 0.19            | 0.20            |

The SARs weighted average share price at grant date and exercise price is NZ\$ 85 cents.

The options in the table above have not yet been granted so have not been reported on the NZX but for Accounting standard IFRS 2 the related expense is recorded in current period financial statements.

### Directors

The following directors hold the following number of SARs as at 31 December 2016:

|                     | <b>Exercise Price</b> |           |
|---------------------|-----------------------|-----------|
| Christopher Brennan | NZ \$0.83             | 1,839,249 |

## 7. Related parties

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### Parent and ultimate controlling party

The immediate parent and ultimate controlling party of the Group is SLI Systems Limited.

### Related party transactions and balances

Directors' holdings of options, SARs, redeemable shares and associated loans are disclosed in Notes 4, 5 and 6.

Marder Media Group, Inc. (of which Steven Marder is a director) is a shareholder of Delivery Agent, which is a customer of S.L.I. Systems, Inc. Revenue recognised in the period \$124,000 (31 December 2015: \$158,000).

## 8. Segmental information

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An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the Group, has been identified as the CEO.

The Group currently operates in one business segment providing website search services in United States, the United Kingdom, Australia, New Zealand, Brazil and Japan. Discrete financial information is not produced on a geographical basis and the operating results are reviewed on a group basis.

## 9. Subsequent events

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There have been no material subsequent events after 31 December 2016.



# Board and Management

## Board

—  
Greg Cross  
Independent Chairman

Chris Brennan  
Managing Director

Dr. Shaun Ryan  
Executive Director and Co-Founder

Steven Marder  
Non-Executive Director and Co-Founder

Matthew Houtman  
Non-Executive Director

Sarah Smith  
Independent Director

Andrew Lark  
Independent Director

## Management

—  
Chris Brennan  
Chief Executive Officer

Rod Garrett  
Chief Financial Officer

Dr. Shaun Ryan  
Chief Innovation Officer and Co-Founder

Dr. Wayne Munro  
Chief Technology Officer and Co-Founder

Dr. Blair Cassidy  
Chief Product Officer

Chris Brubaker  
Chief Marketing Officer

Martin Onofrio  
Chief Revenue Officer

Michael Grantham  
Chief Information Officer and Co-Founder

Gary Schaumburg  
Vice President of Customer Success

Heather Kinghorn  
Vice President of Human Resources



# Directory

## Registered Office of the Company

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Email: [info@sl-systems.com](mailto:info@sl-systems.com)  
Website: [www.sli-systems.com](http://www.sli-systems.com)

## Solicitors

Chapman Tripp  
Level 5, 60 Cashel Street  
Christchurch

## Auditor

PricewaterhouseCoopers  
PwC Centre  
Level 4, 60 Cashel Street  
Christchurch

## Registrar

Link Market Services Limited  
Level 11, Deloitte Centre  
80 Queen Street, Auckland  
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Facsimile: +64 (9) 375 5990  
Email: [enquiries@linkmarketservices.co.nz](mailto:enquiries@linkmarketservices.co.nz)  
Website: [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz)

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### Australia

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Phone: 1800 139 190

### New Zealand

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Phone: +81 03 5715-8052



# Investor Calendar

## **Year End**

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30 June 2017

## **Full-year Results Announcement**

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August 2017

## **Annual Meeting**

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November 2017





