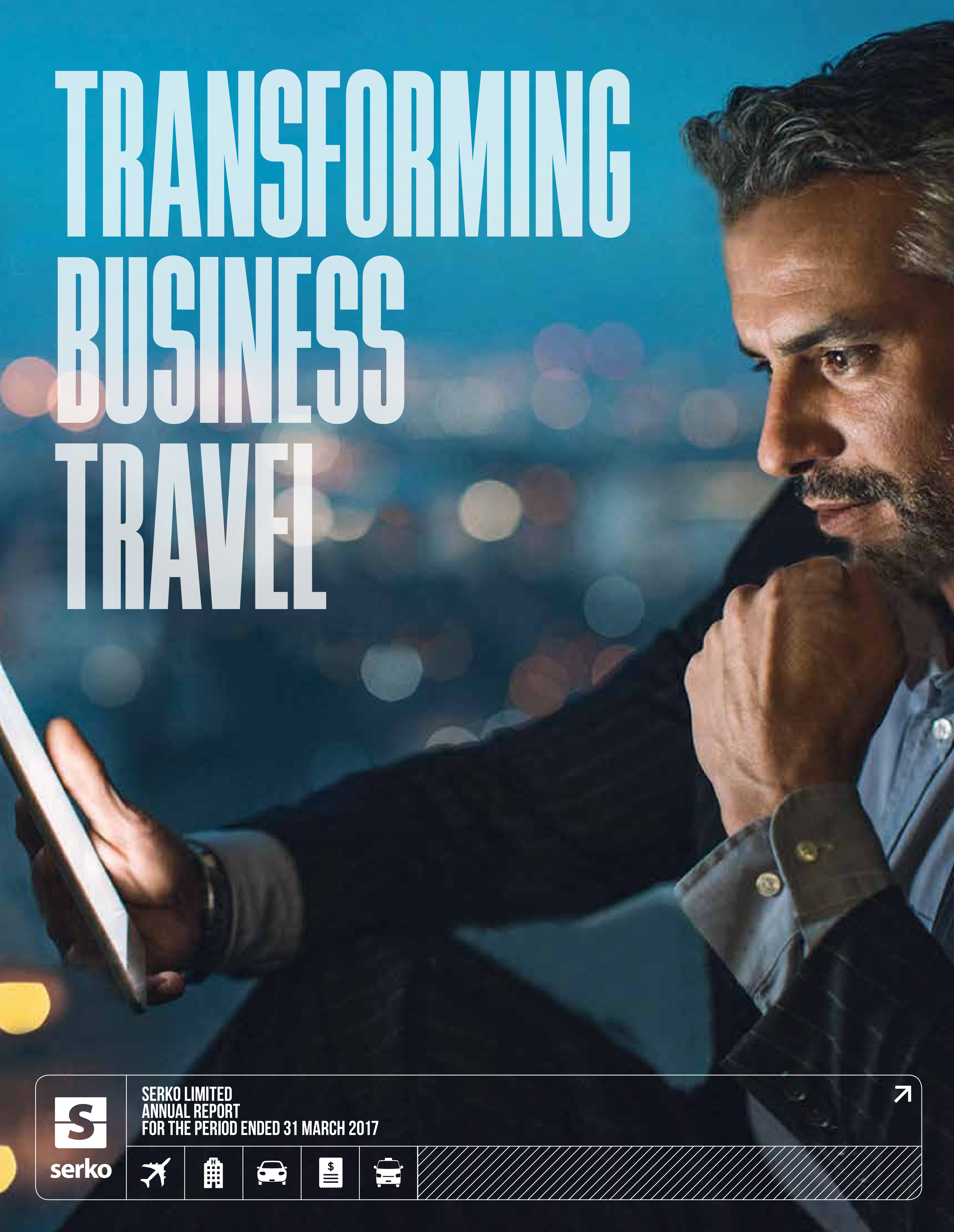
TRANSFORMING BUSINESS TRAVEL



serko

SERKO LIMITED
ANNUAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017

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KEY DATES

23 AUG 2017
ANNUAL MEETING

30 SEP 2017
HALF-YEAR END

22 NOV 2017
HALF-YEAR RESULT ANNOUNCED

31 MAR 2018
FINANCIAL YEAR END

THIS REPORT IS DATED 6 JUNE 2017 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/

ON TRACK TO GENERATE ANNUAL PROFIT AS RECURRING REVENUES GROW

44%

↗ Net Loss Before Tax narrows 44% to $3.3 million, while Revenue rises 9% to $14.3 million

53%

↗ EBITDA[1] loss narrows 53% to $2.5 million, due to increasing Revenue and active cost management

18%

↗ Online transaction growth of 18%; recurring revenues, representing 91% of Revenue, rises 9% to $12.9 million

37%

↗ Annualised Transactional Monthly Revenue (ATMR)[2] as at 31 March 2017 was $15.3 million, a 37% increase over the same month prior year

serko .travel

↗ Research and development spend for FY17 was $5.8 million and led to the launch of serko.travel, booking on a mobile, expense submission via mobile and Serko Zeno ready into testing phase

5 YEARS RUNNING FINALIST HIGH TECH COMPANY OF THE YEAR

NZ HI-TECH AWARDS

↗ Celebrated 10 years transforming travel and expense management on 23 May 2017

1. EBITDA is a non-GAAP measure representing Earnings Before the deduction of costs relating to Interest, Taxation, Depreciation and Amortisation and Impairment.
2. ATMR (Annualised Transactional Monthly Revenue) is a non-GAAP measure. Serko uses this as a useful indicator of recurring revenues from Serko products, based on the monthly transactions from the most recent month (March 2017).

SERKO ON TRACK TO GENERATE ANNUAL PROFIT AS RECURRING REVENUES GROW

Dear Shareholder

Serko is on track to generate profit for the current financial year as it consolidates its position as the Australasian market leader in corporate travel and expense management solutions and readies itself for expansion.

Serko, which this year celebrates its ten-year anniversary, has made strong progress over the last financial year. With more than 50%[1] of all corporate travel in Australasia now booked through the Serko enterprise platform, we are clearly the leading solution in our home market.

Transactional travel revenue grew by 8% for the year and lagged transaction growth (18%) owing to a higher level of minimum contractual payments recorded in the 2016 year and adverse currency impacts in the 2017 year. Minimum contractual payments are received when a customer's actual transactions fall short of their contracted minimum. However, in looking forward it is important to understand that transaction volumes grew strongly, particularly in the second half. Due to this acceleration in the second half, the overall transactional growth of 18% during the year masks the run-forward growth rate. A comparison of March 2016 transactional revenues with March 2017 shows an increase of 37%, which is attributable to both an increase in the number of transactions and the Average Revenue per Booking (ARPB). The current pipeline of new customers expected to join Serko's platform gives us confidence we will achieve positive profit in the current financial year and cash flow break even for the full year.

We are also in a sound financial position. In the second half of the 2017 financial year, net cash outflows were just $0.3 million, sharply lower than the $2.3 million outflow in the first half as the Company benefited from growing revenues as well as cost synergies achieved from the integration of the Arnold booking platform. At the end of the financial year we had $4.5 million of cash on hand. This figure is ahead of the $3-$4 million that we advised as our target on 23 November 2016. We expect our cash balance to fall below $4 million following the payment of employee performance incentives and annual prepayments due in the first half of the year, however we have sufficient cash to fund both our current level of activity and anticipated growth.

Contrast this result with the Company's performance just six years ago. Today we process the same volume of transactions per month as we did for the total 2011 year. It is clear we have come a long way and the team is justified in being proud of their achievements.

↗ TRANSACTION VOLUMES CONTINUE TO GROW STRONGLY. TODAY WE PROCESS THE SAME VOLUME OF TRANSACTIONS PER MONTH AS WE DID FOR THE TOTAL 2011 YEAR.

Financial Results

Total revenue for the year to 31 March 2017 rose 9% to $14.3 million from $13.1 million in the prior year, including $12.9 million from the Serko Online and Serko Expense platforms, as well as service revenue from customised development work.

Total income, which includes research and development grants, rose 7% to $15.4 million from $14.4 million in 2016. Revenue growth in the current financial year was adversely impacted by the strength of the New Zealand dollar against the Australian dollar as Serko's contracts are predominantly in Australian dollars.

Annualised Transactional Monthly Revenue (ATMR) for March 2017, an indicator of recurring revenues from the Serko products projected annually, stood at $15.3 million, a 37% improvement on the $11.2 million for the same month a year ago.

1. Source: GBTA (Global Business Travel Association)

Transaction volumes on the Serko Online platforms grew 18%. This growth rate was lower than the prior year, however, the growth rate in the 2016 year was boosted by a near full-year contribution from the May 2015 acquisition of the Arnold Travel Technology platform. There were no acquisitions in the 2017 financial year.

Serko's annual net loss before tax narrowed by 44% to $3.3 million from $5.4 million in the prior year. EBITDA losses narrowed by 53% to $2.5 million from $5.4 million in the prior year. This was owing to increased transaction volumes, careful management of operating expenses and the benefits achieved by integrating the Arnold platform. Overall, expenses reduced by 10% to $18.8 million from $20.7 million a year earlier.

2017 Performance Drivers

Our purpose remains to transform the way businesses manage travel and expenses, enabling stress-free travel so team members can always be at their most productive and delivering tangible benefits to the organisations that use the Serko line of products.

Over the last twelve months we have concentrated on a three-pronged strategy towards this goal of: growing our customer base; increasing ARPB; and delivering market-leading technological innovations to underpin our platform for global expansion.

We have made good progress on all three fronts. With our

WITH OUR AUSTRALASIAN CORPORATE TRAVEL BUSINESS FIRMLY ESTABLISHED, WE ARE LOOKING TO EXPAND INTO NEW MARKETS THROUGH STRATEGIC PARTNERSHIPS

Australasian corporate travel business now firmly established, we are looking to drive uptake on the small business platform, serko.travel, and expand into new markets through strategic partnerships.

Partnerships

Travel Management Company (TMC) on-boarding of new corporate customers was a key driver of Serko's growth and contributed to the increase in transaction volume for Serko Online and an increase in corporate customers using Serko Expense. This growth is expected to continue into FY18 with a strong pipeline of new customers expected to join Serko's platform.

We signed an agreement with Sabre Corporation, North America's largest provider of global airline bookings, to replace its proprietary online booking tool (Sabre Online) with a new tool

WITH MORE THAN 50%[1] OF ALL CORPORATE TRAVEL IN AUSTRALASIA NOW BOOKED THROUGH THE SERKO ENTERPRISE PLATFORM, WE ARE THE UNDISPUTED LEADER IN OUR HOME MARKET.

based on Serko Online. Sabre is now in the process of transferring its customers to Sabre Powered by Serko. Serko also signed agreements with the Helloworld and Magellan Travel Group TMCs. These agreements have extended Serko Online to a potential 50+ new TMCs.

We have initiated an incentive program for our TMC resellers to activate expense across our 6,000 travel customers in a drive to increase awareness and sales of the expense management platform. This move has started to increase revenue, with sales in this product-line increasing 15% over the prior year. In addition, Serko is winning expense work as customers increasingly look for combined expense and travel platforms. The integration of the travel and expense platforms on our mobile app has enhanced our ability to meet this demand.

New Content

We successfully introduced new content providers such as Expedia, Wotif and Booking.com to our platform. The initiative has been well received by our TMC customers and is contributing a growing revenue stream as Serko takes a share of content sales commissions. While it is early days, around 5% of bookings through our platform are buying services from these content providers. Commissions on this new content grew over 900% and is on-track to contribute significantly to Serko's FY18 results. Serko has signed with new content providers Hotel Hub and HRS and their content will be available in FY18.

SUCCESSFUL INTRODUCTION OF CONTENT GROWS AVERAGE REVENUE PER BOOKING BY 7%

serko.travel

In July 2016, we launched our platform for small and medium enterprises (SME), serko.travel. It offers companies with less than 150 employees a way to book and manage their company travel online and benefit from many of the enterprise platform's cost control, approval and reporting features.

serko.travel is a self-service system that uses the Serko Online technology platform, offering users further opportunities to reduce corporate travel management overheads. It also offers customers the services of the Helloworld and Fight Centre TMCs if needed on a pay-per-use basis. Users incur no initial booking fee. Instead, Serko generates revenue from the sharing of commissions. The system also integrates with Xero to streamline the process of reconciling travel-related expenses.

Serko is continuing to broaden its user-base for this platform via white-labelling arrangements. Helloworld and Flight Centre will launch their own white-label versions of serko.travel to support their SME businesses during 2017. We intend to further grow uptake of the platform by sharing revenue with partners that have strong relationships with other large numbers of SMEs. We have already signed agreements with Xero and 2degrees, and we are in discussion with other parties. Through these partnerships, the serko.travel platform will also be rolled out to customer bases in Hong Kong and Singapore.

Platform Development

Serko's leadership in travel and expense management is dependent on the continued development of its platforms. We were delighted this year by Callaghan Innovation's decision in March 2017 to extend its research and development grant by $2 million over the next two years. In addition to the launch of serko.travel, key product developments in the year included:

Serko Mobile: We launched a predictive booking workflow for Serko Mobile in September 2016. This feature puts the power of our predictive software booking technology into the hands of the travellers themselves. This new feature is assisting our channel partners to target new accounts.

Serko Expense: In December 2016, one of the highlights for Serko Expense was the launch of the upgraded Serko Mobile app, allowing users to submit expenses directly from their phones. In an industry first, this gives business travellers end-to-end control of their trips via a single app, from booking and managing travel itineraries, right through to submission of associated expenses.

Serko Zeno Zeno is our new corporate travel booking and expense management platform and incorporates a number of leading-edge features. The demonstration of Zeno to some of our key accounts has been well received. It is currently being tested and we expect to launch later in the current financial year. It will be offered as a premium solution alongside the existing Serko Online product.

Outlook

Serko is in a strong position and is looking to the remainder of the current financial year and beyond with confidence. Transactional revenue is expected to grow with our TMC partners seeing a strong pipeline of new customers they expect will begin using Serko Online and Serko Expense in the current financial year.

We also expect to see continued growth in content revenue through our various platforms. We expect that content revenue growth will accelerate as additional content providers are added to the platform, including taxis, transfers and rental cars, as well as other providers of hotel bookings. We expect Serko Zeno to begin to contribute to revenue later in the current financial year and into the 2019 financial year as we launch into new markets in association with our partners such as Sabre.

Serko will continue to invest in its platforms to expand its product use globally. And, through careful management of our costs, and our financial and capital position, we expect to achieve sustainable cash flow for the current financial year and record positive earnings for the full year.

SERKO IS IN A STRONG POSITION AND IS LOOKING TO THE REMAINDER OF THE CURRENT FINANCIAL YEAR AND BEYOND WITH CONFIDENCE.

Simon Botherway
Chairman

Darrin Grafton
Chief Executive Officer

CLOUD-BASED CORPORATE TRAVEL AND EXPENSE MANAGEMENT SOLUTION PROVIDER

We've been the leading Online Booking Tool (OBT) for corporate travel in Australasia since 2007. Since then we've expanded into expense management and become a publicly listed business (SKO.NZ) employing more than 100 people across three countries and servicing customers in more than 26 countries around the world. Serko is growing rapidly and is one of New Zealand's most successful tech companies. Today, many of the largest corporate businesses in Australia, New Zealand and Asia trust Serko to help them manage their corporate travel programmes and make sense of their corporate expenses. By the numbers, more than two million people have access to Serko's OBT and more than 50% of Australia's corporate travel spend passes through Serko every year.

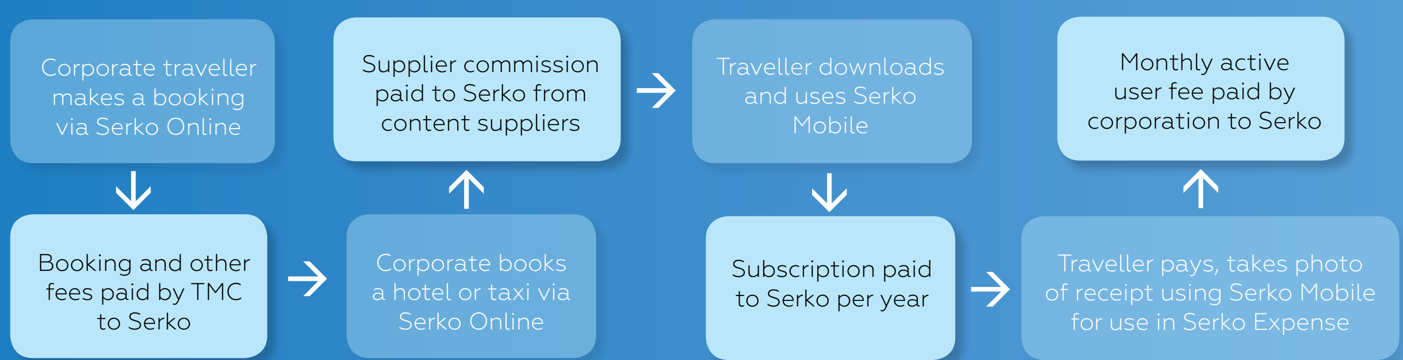
Our **purpose** is to **transform the way businesses manage travel and expenses,** enabling stress-free travel so team members can always be at their most productive, **delivering tangible benefits** to the organisations that use the Serko line of products

OUR STRATEGY

Serko has concentrated on a three-pronged strategy of growing our customer base, increasing average revenue per booking (ARPB) and delivering market-leading technological innovations to underpin our platform for global expansion.

Serko is currently developing Serko Zeno, which will be a premium offering alongside our existing Serko Online, with a number of leading-edge features. Combined with Expense Management and serko.travel for small and medium businesses, we will have an integrated, globally competitive offering where Serko can expand its customer base through strategic alliances and reach unserved markets. Together with growing content, this will continue to increase our ARPB.

HOW SERKO GENERATES REVENUE



SERKO – TRANSFORMING BUSINESS TRAVEL & EXPENSE MANAGEMENT

SERKO ONLINE – MAKING BUSINESS TRAVEL PERSONAL

Serko Online is an enterprise-grade independent web-based technology platform that talks to the main Global Distribution Systems (GDSs), providing Serko users the ability to search all the content stored in the GDSs, while applying their company's travel policy. Unlike GDS-owned Online Booking Tools (OBTs), Serko also talks to a large number of other travel providers, such as low-cost carriers and discount accommodation providers, which gives corporate users access to a huge range of flights and hotel rooms at every price point.

SERKO EXPENSE – YOUR PERSONAL EXPENSE MANAGER

Serko Expense is a powerful cloud-based expense management solution that simplifies every aspect of expense management. Through Serko Expense, users can manage cash claims, mileage, allowance and corporate credit card expenses. Unique cloud-based matching technology makes the process of reconciling corporate card expenses a painless experience that saves hours of admin time and dramatically improves policy compliance.

SERKO.TRAVEL – FOR SMALL AND MEDIUM BUSINESSES GOING PLACES

For smaller businesses based in Australia and New Zealand serko.travel is a brand new way to manage business travel. It's a self-service system that uses the Serko Online technology platform to give organisations with fewer than 150 employees the ability to make and change bookings online for free. Companies simply sign up at serko.travel and can start making bookings online immediately.

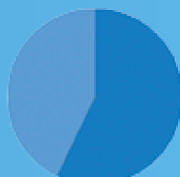
serko.travel pulls together all of the local travel suppliers, including content from Expedia, Booking.com and Wotif to ensure that users can book all the hotels, airlines and hire car suppliers that matter. The system also integrates with Xero, the leading small business accounting platform to streamline the process of reconciling credit cards.

SERKO - PARTNERS WITH TMCS TO DELIVER ENTERPRISE-LEVEL SOLUTIONS TO BLUE CHIP CORPORATES

Corporate Travel US$1.2tr global market

Serko addresses 66% of the $21.8bn of corporate spend with its current technology platform

Serko's transacted customer market share is 57%



Market-leading reseller base (TMCs) covering large market share & provides a global footprint

Blue chip customer base numbering over 6,000 corporate entities

Source: GBTA (Global Business Travel Association)

OVERVIEW OF PERFORMANCE

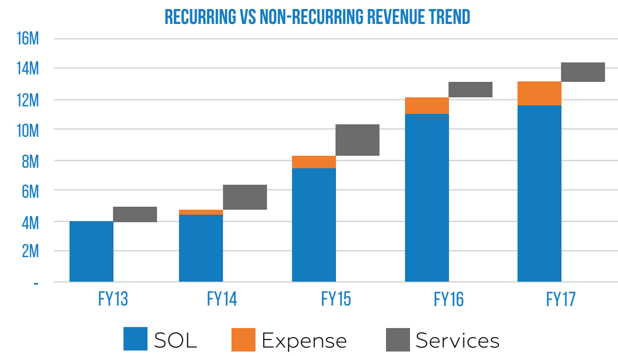
↑9% INCREASE REVENUE

$14.3 MILLION

Recurring Revenue
91% of Revenue

NZD $'000	FY17	FY16	INCREASE
Serko Online	11,796	10,919	8%
Serko Expense	1,125	981	15%
Recurring Revenue	12,921	11,900	9%
Services	1,356	1,222	11%
Revenue	14,277	13,122	9%

SERKO IS EMERGING INTO PROFITABILITY. TRANSACTIONAL REVENUE WILL INCREASE AND WE WILL BENEFIT FROM THE SCALABILITY OF OUR PLATFORM, WHILE CONTROLLING COSTS.



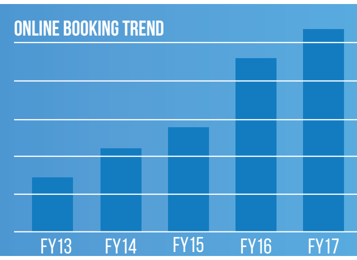
TRANSACTIONAL REVENUE

Recurring revenue grew by 9% for the year and lagged transactional travel growth of 18% owing to a higher level of minimum contractual payments recorded in the 2016 year and adverse currency impact in the 2017 year. Minimum contractual payments are received when a customer's actual transactions fall short of their contracted minimum. However, in looking forward it is important to understand that transaction volumes grew strongly, particularly in the second half. Due to this acceleration in the second half, the overall transactional growth of 18% during the year masks the run-forward growth rate. A comparison of March 2016 transactional revenue with March 2017 shows an increase of 37%, which is attributable to both an increase in the number of transactions and the Average Revenue per Booking. The current pipeline of new customers expected to join Serko's platform gives us confidence we will achieve positive profit in the current financial year and cash flow break even for a full year.

↑37% INCREASE ATMR[1]

$15.3 MILLION

Indicator of future growth potential



18% INCREASE FY17

Online transaction growth continues

SELECTED OPERATIONAL METRICS	FY17	FY16	FY15	FY14	FY13
Total revenue growth (%)	9%	27%	55%	39%	27%
Revenue growth – Serko Online (%)	8%	49%	62%	12%	41%
Operating costs[2] (excluding depreciation & amortisation) (%)	-10%	13%	105%	62%	35%
No. of transactions (indexed, where FY13=100)	326	275	179	123	100
Transaction growth	18%	54%	45%	23%	35%
Product/recurring revenue as % of total revenue	91%	93%	80%	71%	84%
Employees (number at end of year)	108	127	133	87	47
Average revenue per full-time equivalent (NZ$'000)	122	101	94	100	119
Research & development costs – expense and capex (NZ$000)	5,836	6,268	5,762	3,387	2,340

1. ATMR (Annualised Transactional Monthly Revenue) is a non-GAAP measure. Serko uses this as a useful indicator of recurring revenues from Serko products based on the monthly transactions from the most recent month (March 2017).
2. Operating Costs is a non-GAvAP measure that excludes costs relating to taxtion, interest, depreciation, amortisation and impairment charges.

REVENUE

Serko's main source of revenue is from its Serko Online travel booking application. This is predominantly invoiced to TMC resellers on a monthly basis for the total transactions generated from the online travel bookings made by their end user customer bases. Revenue is made up of per transaction fees, ancillary service fees, content commissions, and contracted minimum payments where applicable and is stated net of volume-related rebates and discounts. It also includes revenue from serko.travel license fees, content commissions and Mobile license fees.

Serko also earns income from its Expense Management application, which 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.

Services revenue is derived from installation service and customised software development undertaken on behalf of customers. The basis of charging can vary depending on the contractual terms with the cusotmer, which may specify time and materials, capped or fixed pricing.

Other income is primarily related to government grants and is related to applicable research and development projects.

RECONCILIATION OF NET PROFIT BEFORE TAX TO EBITDA[1]

NZD $'000	FY17	FY16	CHANGE
Revenue	14,277	13,122	9%
Other income	1,092	1,296	-16%
TOTAL INCOME	15,369	14,418	7%
Operating expenses (including D&A)	18,763	20,735	-10%
Net finance income	88	374	-76%
NET PROFIT BEFORE TAX (LOSS)	**(3,306)**	**(5,943)**	**-44%**
Add back (deduct):			
Depreciation and amortisation	858	952	-10%
Net finance income	(88)	(374)	-76%
EBITDA (loss)	**(2,536)**	**(5,365)**	**-53%**
Share based payments (SBP)[2]	133	517	-74%
EBITDA (excluding SBP)	(2,403)	(4,848)	-50%
Research & development (expensed)[3]	5,056	5,514	-8%
Grant income relating to R&D	(1,073)	(1,296)	-17%
EBITDA (excluding SBP and R&D)	**1,580**	**(630)**	**351%**

↑44% IMPROVEMENT NPBT (LOSS)

$(3.3) MILLION Increase in Recurring Revenues and on track to achieve profit

↓10% DECREASE OPERATING COSTS

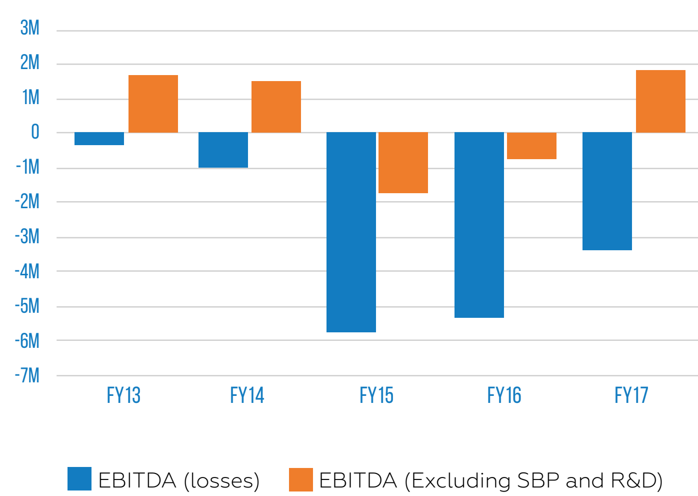
$18.8 MILLION Active reduction of cost base

EXPENSES FROM ORDINARY ACTIVITIES

The classifications of Operating 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.

R&D EFFECT ON EBITDA



1. EBITDA is a non-GAAP measure representing Earnings Before the deduction of costs relating to Interest, Taxation, Depreciation and Amortisation and Impairment.
2. Share Based Payments (SBP) are a non-cash expenditure.
3. Research and Development is a discretionary spend.

FINANCIAL STATEMENTS

DIRECTORS' STATEMENT

The Board of Directors is pleased to present the consolidated financial statements for Serko Limited and the auditors' report for the year ended 31 March 2017.

The directors present financial statements for each financial year that fairly present the financial position of the Group and its financial performance and cash flows for that period.

The directors consider that the financial statements of the group have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept, which enable, with reasonable accuracy, the determination of the financial position of the group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Board of Directors of Serko Limited authorised these financial statements for issue on 25 May 2017.

For and on behalf of the Board

Simon Botherway
Director

Darrin Grafton
Director

INDEPENDENT AUDITOR'S REPORT

Building a better working world

Chartered Accountants

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

To the shareholders of Serko Limited

Opinion

We have audited the financial statements of Serko Limited ("the company") and its subsidiaries (together "the group") on pages 18 to 45, which comprise the statement of financial position of the group as at 31 March 2017, 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 the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 18 to 45 present fairly, in all material respects, the financial position of the group as at 31 March 2017 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the group in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We provide taxation advice and other assurance service to the group. We have no other relationship with, or interest in, the company or any of its subsidiaries. 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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1. ACCOUNTING FOR DEVELOPMENT EXPENDITURES

WHY SIGNIFICANT

- Capitalised software development expenditures are significant to our audit due to the amount of expenditures being capitalised, the rapid technological change in the group's industry, and the specific criteria that have to be met for capitalisation.
- During the year ended 31 March 2017 the group capitalised $780,000 of expenditures relating to development of software.
- Judgement is required in determining development expenditures that should be capitalised. Such judgements include consideration of matters such as generation of future economic benefits and distinction between development of new software and maintenance and upgrade of existing software. These costs are then amortised over the estimated useful life of the software.
- Disclosure regarding capitalised development costs is included in Note 10 to the financial statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

- We performed audit procedures over the accuracy and valuation of amounts capitalised in the current year and the amount expensed relating to software development. Our procedures included assessing the capitalised costs against the recognition criteria in NZ IAS 38: Intangible Assets, assessing the key assumptions used and estimates made in capitalising development costs and testing the accuracy of costs included on a sample basis.
- We also assessed the adequacy of the group's disclosure in Note 10 Intangibles.

2. REVENUE RECOGNITION

WHY SIGNIFICANT

- The group's revenue of $14,277,000 is based on contracts with customers which include a variety of arrangements such as the recognition of actual transaction based revenue, minimum contracted transaction based revenue, establishment or licence fees and installation fees, all of which potentially have different revenue recognition triggers.
- There is often a mismatch between cash flows from customer contracts and when revenues can be recognised which is based on performance obligations.
- Given the specific nature of individual customer contracts which may bundle together several inter-related or separate services and performance obligations, and the presence of contingent fee arrangements where, for example, a transaction fee is conditional on meeting future transaction volume commitments, there is some complexity and elements of judgement required in recognition of revenue.
- Disclosures regarding this item are included in Note 4 to the financial statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

- Our audit procedures over revenue recognition included testing a sample of revenue transactions and reviewing contracts with key customers to assess:
  - that revenue has been recorded in the correct period;
  - the amount of revenue recognised is appropriate; and
  - the impact of any ongoing performance obligations have been included.
- We performed data analytical procedures focusing on integrity of revenue data and identification of unusual transactions.
- We reviewed key judgements adopted by the group in recognising revenue for individual revenue streams.
- We concentrated in particular on contingent revenue arrangements and assessed the group's assumptions applied
- We assessed the adequacy of the group's disclosure in Note 4 to the financial statements.

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3. IMPAIRMENT ASSESSMENT OF INTANGIBLE ASSETS

WHY SIGNIFICANT	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
↗ The group has intangible assets of $1,603,000 recorded on its statement of financial position. This represents 16% of total assets. Intangibles contain the following components: computer software and development work in progress. ↗ NZ IAS 38 Intangible Assets requires that finite life intangible assets be impairment tested whenever there is an indication that the intangible assets may be impaired and this assessment requires judgement. The assessment as to whether there are any indicators of impairment requires judgement as it involves consideration of both internal and external sources of information. This includes assessing the useful life of the assets. ↗ Relatively small changes in assumptions may significantly affect the outcome of impairment assessments. In addition, recoverability of the group's assets depend on the group's ability to make profits and generate sufficient cash flows from those assets. The group suffered losses of $3,450,000 and generated negative cash flow from operating activities of $1,595,000 for the year ended 31 March 2017, which were indicators of impairment and therefore an impairment test was performed. ↗ Disclosures relating to Intangible Assets are included in Note 10 to the financial statements.	↗ We concentrated our impairment testing audit work on intangible assets developed internally because of the higher uncertainty regarding recoverability of these intangibles given continuing losses and negative operating cash flows reported by the group. ↗ Our procedures included assessing the assumptions and methodologies used by the group in their assets' value-in-use impairment model. We compared the group's assumptions to our own assessments of key inputs such as revenue growth, cost inflation and discount rates and assessed sensitivities, as well as performed a break-even analysis on key assumptions. ↗ We tested the group's procedures related to the preparation of the budget approved by the Board upon which the value-in-use model is based, as well as compared the sum of projected discounted cash flows to the market capitalisation of the group to assess whether the projected cash flows appeared consistent with the market assessment of the group's value. ↗ We assessed the useful lives of finite life assets to determine if they remained appropriate in the context of the expected future period of economic consumption. ↗ We assessed the adequacy of the group's disclosure included in Note 10 to the financial statements.

Building a better working world

Chartered Accountants

Information Other than the Financial Statements and Auditor's Report

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report which is expected to be made available to us after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

When we read the Annual Report if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with the governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our autitor's report was prepared.

Directors' Responsibilities for the Financial Statements

The directors are responsible, on behalf of the entity, 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.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at External Reporting Board's website: https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx. This description forms part of our auditor's report.

Report on the Other Legal and Regulatory Requirements

The engagement partner on the audit resulting in this independent auditor's report is Jon Hooper.

Ernst + Young

25 May 2017

Auckland

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	NOTES	2017	2016
		$(000)	$(000)
Revenue	4	14,277	13,122
Other income	4	1,092	1,296
Total revenue and other income		**15,369**	**14,418**
Operating expenses	5		
Selling and marketing expenses		(1,658)	(1,267)
Remuneration and benefits		(12,285)	(13,941)
Administration expenses		(3,880)	(4,405)
Other expenses		(940)	(1,122)
Total operating expenses		**(18,763)**	**(20,735)**
Finance income	5	142	430
Finance costs	5	(54)	(56)
Loss before income tax		**(3,306)**	**(5,943)**
Income tax expense	6	(144)	(291)
Net loss for the year		**(3,450)**	**(6,234)**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)			
Movement in foreign currency reserve		(140)	(42)
Total comprehensive loss for the year		**(3,590)**	**(6,276)**
Loss for the year attributable to:			
Equity holders of the parent		**(3,450)**	**(6,234)**
Total comprehensive loss for the year attributable to:			
Equity holders of the parent		**(3,590)**	**(6,276)**
Earnings per share			
Basic and diluted profit (loss) for the year attributable to ordinary equity holders of the parent	21	$(0.05)	$(0.10)

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

	NOTES	CONTRIBUTED EQUITY	SHARE-BASED PAYMENT RESERVE	FOREIGN CURRENCY RESERVE	ACCUMULATED LOSSES	TOTAL
		$(000)	$(000)	$(000)	$(000)	$(000)
Balance as at 1 April 2016		**25,185**	**888**	**107**	**(16,447)**	**9,733**
Net loss for the period		–	–	–	(3,450)	(3,450)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)		–	–	(140)	–	(140)
Total comprehensive loss for the year		**–**	**–**	**(140)**	**(3,450)**	**(3,590)**
Transactions with owners						
Allocated shares to employees	15	–	372	–	–	372
Forfeiture of shares from employees	15	–	(239)	–	–	(239)
Interest on convertible notes		–	–	–	–	–
Balance as at 31 March 2017		**25,185**	**1,021**	**(33)**	**(19,897)**	**6,276**
Balance as at 1 April 2015		**17,604**	**371**	**149**	**(10,213)**	**7,911**
Net loss for the period		–	–	–	(6,234)	(6,234)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)		–	–	(42)	–	(42)
Total comprehensive loss for the year		**–**	**–**	**(42)**	**(6,234)**	**(6,276)**
Transactions with owners						
Issue of share capital	15	8,096	–	–	–	8,096
Cancellation of shares in Salary Sacrifice Scheme	15	(10)	–	–	–	(10)
Cost of equity issued	15	(505)	–	–	–	(505)
Allocated shares to employees	15	–	517	–	–	517
Balance as at 31 March 2016		**25,185**	**888**	**107**	**(16,447)**	**9,733**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	NOTES	2017	2016
		$(000)	$(000)
Current assets			
Cash at bank and on hand	11	4,451	7,118
Receivables	7	3,167	3,969
Derivative financial instruments	8	–	5
		7,618	**11,092**
Non-current assets			
Property, plant and equipment	9	886	613
Intangible assets	10	1,603	1,439
Deferred tax asset	6	112	–
		2,601	**2,052**
Total assets		**10,219**	**13,144**
Current liabilities			
Trade and other payables	12	2,582	2,557
Income tax payable		160	315
Interest-bearing loans and borrowings	14	399	344
Derivative financial instruments	8	245	–
		3,386	**3,216**
Non-current liabilities			
Deferred tax liability	6	–	58
Trade and other payables	12	269	137
Interest-bearing loans and borrowings	14	254	–
Derivative financial instruments	8	34	–
		557	**195**
Total liabilities		**3,943**	**3,411**
Equity			
Contributed equity	15	25,185	25,185
Share-based payment reserve	15	1,021	888
Foreign currency reserve		(33)	107
Retained earnings – accumulated (deficit)		(19,897)	(16,447)
Total equity		**6,276**	**9,733**
Total equity and liabilities		**10,219**	**13,144**

For and on behalf of the Board who authorised these financial statements for issue on 25 May 2017.

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 2017

	NOTES	2017	2016
		$(000)	$(000)
Cash flows from operating activities			
Receipts from customers		15,113	12,464
Interest received		99	78
Receipts from grants		1,075	1,382
Taxation (paid)/refund received		(469)	(214)
Payments to suppliers and employees		(17,349)	(18,161)
Interest payments		(16)	(35)
Net Goods and Services Tax (GST) refunded (paid)		(48)	34
Net cash flows used in operating activities	18	**(1,595)**	**(4,452)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(247)	(65)
Purchase of intangibles		(791)	(677)
Net cash flows used in investing activities		**(1,038)**	**(742)**
Cash flows from financing activities			
Share issue		–	8,096
Cost of new share issue		–	(470)
Net cash flows from financing activities		**–**	**7,626**
Net increase (decrease) in total cash		**(2,633)**	**2,432**
Net foreign exchange difference		(34)	199
Cash and cash equivalents at beginning of period		7,118	4,487
Cash and cash equivalents at end of period		**4,451**	**7,118**
Cash and cash equivalents comprises the following:			
Cash at bank and on hand	11	4,451	7,118
		4,451	**7,118**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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 Financial Market Conduct Act 2013. 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 financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars unless stated otherwise.

The financial statements provide comparative information in respect of the previous period.

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:

- Cash reserves at 31 March 2017 of $4.5 million provides a sufficient level of headroom to help support the business for at least the next twelve months
- The FY18 budget has been prepared to achieve profitability and positive net cash flow over the year
- The directors have made due enquiry into the appropriateness of the assumptions underlying the budgetary forecasts
- In approving the FY18 budget, the directors have considered detailed contingency plans presented by the management, including the ability to adjust resource levels and reduce operating costs, 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 FY18, 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 2018, is replacing NZ IAS39 Financial Instruments: Recognition and Measurement.

  NZIFRS 9 includes a revised model for classification and measurement and will result in changes to financial statement disclosures. Management does not expect a significant change to the way in which the group measures its financial statements as a result but has not yet performed a full assessment.
- NZ IFRS 15 Revenue Recognition, effective for accounting periods beginning on or after 1 January 2018. Management does not expect the recognition and measurement of revenue to materially change under the new standard, however, a full assessment has not yet been performed.
- NZ IFRS 16 Leases, effective for accounting periods beginning on or after 1 January 2019.

  The group has assessed the impact of NZ IFRS 16 Leases. There will be an impact on the statement of financial position where future minimum lease payments per note 16 are discounted back and shown as a lease liability and a 'right-of-use asset' for substantively all lease contracts. The standard will not have any effect on the total amount of cash flows reported but it is expected to have an effect on the presentation of cash flows. This is because, applying NZ IAS 17 Leases, cash flows relating to operating leases are presented as cash flows from operating activities, while applying NZ IFRS 16, will result in the presentation within financing activities of cash flows relating to the repayment of principal on lease liabilities.

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

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 using 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.

SIGNIFICANT JUDGEMENTS

In the process of applying the group's accounting policies, management has made the following judgements, which have an 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 employee churn rate 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 2017 the carrying amount of capitalised development costs was $204,600 (2016: $407,019).

This amount represents development of a new innovative user booking experience.

FUNCTIONAL CURRENCY

The group periodically reviews the functional currency for reporting purposes. Based on the assessment of the NZ IAS 21 criteria, management believes, that there is sufficient justifications for the continued use of New Zealand dollars (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 depends 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.

REVENUE RECOGNITION

Serko has reseller customer agreements that contain annual minimum transaction volume commitments that span financial reporting periods. Based on this, management needs to make a judgement about estimated future transaction volumes to determine related revenue for the specific financial reporting period.

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 SERVICES

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

III) LICENCE FEE REVENUE

Revenue from licence fees is recognised over the term of the licence agreement.

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.

	NOTE	2017	2016
		$(000)	$(000)
Revenue – transaction and usage fees		12,921	11,900
Revenue – services		1,356	1,222
Total operating revenue		**14,277**	**13,122**
Other income			
Government grants	13	1,073	1,296
Sundry income		19	–
		1,092	**1,296**

5 EXPENSES

	NOTES	2017	2016
		$(000)	$(000)
Operating loss before taxation includes the following expenses:			
Auditor remuneration and advisory fees		116	99
Amortisation of intangibles	10	633	486
Impairment of intangibles	10	–	220
Depreciation	9	225	246
Rental and operating lease expenses		686	658
Employee & contractor remuneration		11,462	12,715
Contributions to defined contribution plans		416	496
Share-based payment expenses	15	133	517
Marketing expenses		936	540
Hosting expenses		904	923
Other operating expenses		3,252	3,835
Expenses from ordinary activities		**18,763**	**20,735**
Research expenses (excluding capitalised development costs)		5,056	5,514

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.

	2017	2016
Finance income and expenses includes:		
Finance income		
Interest received	116	117
Dividends received	1	1
Foreign exchange gains – net	25	312
Total finance income	**142**	**430**
Finance expenses		
Interest expense	(36)	(55)
Other finance expenses	(18)	(1)
Total finance expenses	**(54)**	**(56)**
Total finance income and expenses	**88**	**374**

AUDITOR REMUNERATION

The directors of Serko Limited appointed Ernst & Young as the auditor of the group for the year ended 31 March 2017.

Amounts received or due and receivable by:

	2017	2016
	$(000)	$(000)
Ernst & Young		
Audit of financial statements	82	59
Other assurance-related services (a)	15	11
Total audit fees	**97**	**70**
Tax services (b)	19	29
Total non-audit fees	**19**	**29**

(a) Other assurance-related services include services for research and development assurance procedures and half year agreed upon procedures.

(b) Tax services relate to compliance services.

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.

6 INCOME TAX – CONTINUED

	2017	2016
	$(000)	$(000)
Statement of comprehensive income		
Current income tax		
Current income tax charge/(credit)	308	272
Adjustments in respect of previous years	6	87
	314	**359**
Deferred income tax		
Origination and reversal of temporary differences	(170)	(2)
Adjustments in respect of previous years	–	(66)
	(170)	**(68)**
Income tax expense reported in the statement of comprehensive income	**144**	**291**

	2017	2016
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	**(3,306)**	**(5,943)**
At the statutory income tax rate of 28% (2016:28%)	(926)	(1,664)
Non-deductible items	7	83
Adjustments in respect of current income tax of previous years	6	21
Chinese branch tax	61	62
Foreign tax credits not utilised	16	13
Future income tax benefit, not recognised	971	1,768
Effect of tax on overseas subsidiaries at different rate	9	8
	144	**291**
At effective income tax rate of:	-4.4%	-4.9%

Deferred income tax

Deferred income tax at 31 March relates to the following:

	2017		2016	
	STATEMENT OF FINANCIAL POSITION	STATEMENT OF COMPHENSIVE INCOME	STATEMENT OF FINANCIAL POSITION	STATEMENT OF COMPHENSIVE INCOME
	$(000)	$(000)	$(000)	$(000)
Deferred income tax liabilities recognised				
Intangibles	–	71	(71)	29
Unrealised foreign exchange	(51)	15	(66)	(66)
Deferred income tax assets recognised				
Intangibles	87	87	–	–
Employee entitlements	76	(3)	79	39
Net deferred tax asset/(liability) recognised	**112**	**170**	**(58)**	**2**
Deferred income tax assets not recognised				
Employee entitlements	107	3	103	(20)
Bonus provision	92	92	–	–
Long-term incentive fair value adjustment	435	94	341	227
Accruals	–	(28)	28	(11)
Allowance for impairment	2	–	2	(16)
Deferred revenue	(20)	(33)	14	(2)
	616	**128**	**488**	**178**
Tax losses available to be carried forward and offset against future income	4,484		3,779	
Total deferred tax asset not recognised	**5,100**		**4,267**	

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	2017	2016
		$(000)	$(000)
Trade receivables		2,544	3,338
Allowance for impairment		(7)	(7)
Trade receivables (net)		2,537	3,331
GST receivable		22	54
Prepayments		255	249
nuTravel Loan receivable	17	353	335
Total receivables		**3,167**	**3,969**
FOREIGN CURRENCY RISK			
The carrying amounts of the group's receivables are denominated in the following currencies:			
New Zealand dollars		1,493	1,760
Australian dollars		1,634	1,745
US dollars		29	459
Indian rupees		11	5
		3,167	**3,969**

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 (2016: $nil) 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
	$(000)	$(000)	$(000)	$(000)	$(000)
2017	2,544	2,432	8	11	93
2016	3,338	2,697	247	83	311

Group receivables over 60 days of $103,287 (2016: $394,046) include a provision for impairment of $7,429. The balance of $95,858 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 expired on 30 June 2016. The loan is currently outstanding and action is being taken to recover the loan. There is no financial risk to Serko as the loan receivable is back to back with the associated loan payable to Financial Equities Limited (refer note 14). 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 income. 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 income.

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

	2017	2016
	$(000)	$(000)
Current:		
Foreign currency forward exchange contracts	(245)	5
Non-current:		
Foreign currency forward exchange contracts	(34)	-
Contractual amounts of forward exchange contracts outstanding were as follows:		
Purchase commitments forward exchange contracts	13,027	4,163

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. The purchase commitment increase in 2017 from 2016 represents a full hedging position of the group's forecast net cash flow in Australian dollars for FY18.

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.

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.

9 PROPERTY, PLANT AND EQUIPMENT – CONTINUED

	LEASEHOLD IMPROVEMENT	FURNITURE & FITTINGS	COMPUTER EQUIPMENT	TOTAL
	$(000)	$(000)	$(000)	$(000)
2017				
Cost or valuation				
Balance at 1 April 2016	296	343	388	1,027
Additions	501	27	10	538
Disposals	(29)	(16)	–	(45)
Currency translation	(1)	–	–	(1)
Balance at 31 March 2017	**767**	**354**	**398**	**1,519**
Depreciation				
Balance at 1 April 2016	48	106	260	414
Depreciation expense	68	39	118	225
Disposals	–	(6)	–	(6)
Balance at 31 March 2017	**116**	**139**	**378**	**633**
Net carrying amount	**651**	**215**	**20**	**886**
2016				
Cost or valuation				
Balance at 1 April 2015	529	377	480	1,386
Additions	15	7	35	57
Disposals	(251)	(43)	(131)	(425)
Currency translation	3	2	4	9
Balance at 31 March 2016	**296**	**343**	**388**	**1,027**
Depreciation				
Balance at 1 April 2015	70	100	220	390
Depreciation expense	35	44	167	246
Disposals	(57)	(39)	(130)	(226)
Currency translation	–	1	3	4
Balance at 31 March 2016	**48**	**106**	**260**	**414**
Net carrying amount	**248**	**237**	**128**	**613**

	2017	2016
	CENTS	CENTS
Tangible assets per security	1.18	0.84

Prior year has been restated based on issued capital rather than weighted average.

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
Expense 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 indefinite useful lives 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.

In undertaking an impairment review of non-financial assets that have definite useful lives, the following assumptions were used in the impairment model:

- 5-year forecast period
- Discount rate of 15%
- Discount factor applied using a mid-year convention.

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.

10 INTANGIBLES – CONTINUED

	GOODWILL	KEY EMPLOYEE RETENTION	CUSTOMER CONTRACTS	DEVELOPMENT – WORK IN PROGRESS	COMPUTER SOFTWARE	TOTAL
	$(000)	$(000)	$(000)	$(000)	$(000)	$(000)
2017						
Cost						
Balance at 1 April 2016	220	78	443	407	1,377	2,525
Additions	–	–	–	780	–	780
Transfer of cost	–	–	–	(982)	982	–
Currency translation	–	–	–	–	17	17
Balance at 31 March 2017	**220**	**78**	**443**	**205**	**2,376**	**3,322**
Amortisation and impairment						
Balance at 1 April 2016	220	58	280	–	528	1,086
Amortisation	–	20	163	–	450	633
Balance at 31 March 2017	**220**	**78**	**443**	**–**	**978**	**1,719**
Net carrying amount	**–**	**–**	**–**	**205**	**1,398**	**1,603**
2016						
Cost						
Balance at 1 April 2015	171	71	305	86	1,013	1,646
Additions	33	–	111	558	110	812
Transfer of cost	–	–	–	(237)	237	–
Currency translation	16	7	27	-	17	67
Balance at 31 March 2016	**220**	**78**	**443**	**407**	**1,377**	**2,525**
Amortisation and impairment						
Balance at 1 April 2015	–	29	126	–	204	359
Amortisation	–	26	143	–	317	486
Impairment	220	–	–	–	–	220
Currency translation	–	3	11	–	7	21
Balance at 31 March 2016	**220**	**58**	**280**	**–**	**528**	**1,086**
Net carrying amount	**–**	**20**	**163**	**407**	**849**	**1,439**

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.

	2017	2016
	$(000)	$(000)
Cash at bank – New Zealand dollar balances	3,053	5,813
Cash at bank – foreign currency balances	1,398	1,305
	4,451	**7,118**

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	3,045	5,810
Australian dollars	1,340	1,266
US dollars	58	40
Indian rupees	8	2
	4,451	**7,118**

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.

	2017	2016
	$(000)	$(000)
Trade payables	532	848
Accrued expenses	1,442	1,040
Lease incentive	227	174
Holiday pay accrual	634	632
GST payable	16	–
Total trade and other payables	**2,851**	**2,694**
Disclosed as:		
Current	2,582	2,557
Non-current	269	137
	2,851	**2,694**

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	2017	2016
		$(000)	$(000)
Current			
Financial Equities loan payable	17	353	335
Obligations under finance leases		–	9
Leasehold fitout loan		46	–
		399	**344**
Non-current			
Leasehold fitout loan		254	–
		254	**–**

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

Financial Equities is a loan payable against a loan receivable from nuTravel (refer note 7).

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.

	2017	2016	2017	2016
			NUMBER OF SHARES	NUMBER OF SHARES
	$(000)	$(000)	(000)	(000)
Ordinary shares and Share-Based Payments				
Share capital at beginning of year	26,073	17,975	72,894	62,699
Issue of shares pursuant to institutional capital placement	-	8,000	-	9,524
Issue of shares pursuant to Share Purchase Plan (SPP) placement	-	96	-	114
Issue of new shares to employees via Restricted Share Scheme	-	-	2,000	566
Allocated shares to employees via Restricted Share Scheme	372	517	-	-
Forfeiture of shares from employees via Restricted Share Scheme	(239)	-	-	-
Cancellation of shares under Salary Sacrifice Scheme	-	(10)	-	(9)
Transaction costs for issue of new shares	-	(505)	-	-
Share capital at end of year	**26,206**	**26,073**	**74,894**	**72,894**
Total equity at end of year	**26,206**	**26,073**	**74,894**	**72,894**

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

During the year the group issued 2,000,000 (2016: 565,874) shares under the Restricted Share Scheme (RSS). In respect of the RSS 710,313 restricted shares (2016: 41,662) have been allocated to key management personnel and 228,519 (2016: 229,690) allocated to other Serko employees. Unallocated shares are 1,819,732 (2016: 466,936).

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.

	2017	2016
	$(000)	$(000)
a) Operating lease commitments		
No later than one year	514	432
Later than one year and not later than five years	1,755	1,105
Later than five years	193	–
	2,462	**1,537**
b) Finance lease commitments		
No later than one year	–	8
Total minimum lease payments	**–**	**8**
Present value of minimum lease payments	**–**	**8**

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 $(000)	
NAME	BALANCE DATE	2017	2016	2017	2016
Serko Australia Pty Limited	31 March	100%	100%	1	1
Serko Trustee Limited	31 March	100%	100%	0	0
Serko India Private Limited	31 March	99%	99%	2	2
Serko Investments Limited	31 March	100%	100%	0	0
				3	**3**

Serko Australia Pty Limited's principal business is the marketing and support of travel booking software solutions supplied by Serko Limited.

Serko Trustee Limited was incorporated on 4 June 2014 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
			$(000)	$(000)	$(000)	$(000)
Other related parties						
Financial Equities Limited	14	2017	–	20	353	–
		2016	–	20	335	–
Simon Botherway – Chairman		2017	70			
		2016	70	–	–	–
Clyde McConaghy – Non-Executive Director		2017	60			
		2016	60	–	–	–
Claudia Batten – Non-Executive Director		2017	60			
		2016	60	–	–	–
Total		**2017**	**190**	**20**	**353**	**–**
		2016	**190**	**20**	**335**	**–**

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 expired on 30 June 2016. Financial Equities Limited is a company associated with directors Robert Shaw and Darrin Grafton (refer note 7).

c) Key management remuneration

	2017	2016
	$(000)	$(000)
Short-term benefits employees (*)	2,974	2,125
Post-employment benefits	94	87
Total compensation	**3,068**	**2,212**

(*) 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 2017, the group has not made any allowance for impairment loss relating to amounts owed by related parties (2016: $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

	2017	2016
	$(000)	$(000)
Net loss after tax	(3,450)	(6,234)
Add non-cash items		
Amortisation	633	486
Impairment	–	220
Depreciation	225	246
Loss on property, plant and equipment disposal	36	199
Increase/(decrease) in deferred tax	(170)	(2)
Loss/(gain) on foreign exchange transactions	(110)	(113)
Share-based compensation	133	517
	(2,703)	**(4,681)**
Add/(less) movements in working capital items		
(Increase)/decrease in receivables excluding loans	820	(550)
Decrease in derivative financial instruments	285	111
Increase/(decrease) in trade and other payables	158	534
Increase/(decrease) in income tax	(155)	134
	1,108	**229**
Net cash flow from operating activities	**(1,595)**	**(4,452)**

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 while 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
	$(000)	$(000)	$(000)	$(000)	$(000)	$(000)
GROUP – 2017						
Accounts payable	2,624	2,624	–	–	–	–
Related party loans	353	353	–	–	–	–
Leasehold fitout	300	23	23	20	234	–
	3,277	**3,000**	**23**	**20**	**234**	**–**
GROUP – 2016						
Accounts payable	2,520	2,520	–	–	–	–
Related party loans	335	335	–	–	–	–
Finance leases	9	5	4	–	–	
	2,864	**2,860**	**4**	**–**	**–**	**–**

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 currencies. 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% (2016: +/- 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
	$(000)	$(000)	$(000)	$(000)	$(000)
2017					
Foreign exchange balances					
Cash at bank	1,398	179	179	(132)	(132)
Trade receivables	1,310	223	223	(165)	(165)
Trade payables	(176)	(16)	(16)	12	12
Net exposure	**2,532**	**386**	**386**	**(285)**	**(285)**
2016					
Foreign exchange balances					
Cash at bank	1,305	166	166	(123)	(123)
Trade receivables	1,869	244	244	(180)	(180)
Trade payables	(176)	(28)	(28)	21	21
Net exposure	**2,998**	**382**	**382**	**(282)**	**(282)**

CREDIT RISK

Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents, trade receivables 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.

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% (2016: 100%) of the group's cash and cash equivalents were with one bank. The group has no other concentrations of credit risk.

20 SEGMENT INFORMATION

The Board 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	2017	2016
	$(000)	$(000)
New Zealand	672	616
Australia	13,195	12,229
India	136	167
Singapore	18	24
United States	158	47
Other	98	39
Total Operating Revenue	**14,277**	**13,122**
Other Income		
Grant Income	1,073	1,296
Sundry Income	19	–
Total Revenue & Other Income	**15,369**	**14,418**

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 two customers had more than 10% of the revenue for the group. These customers accounted for $7,709,305 of the revenue for the year ended 31 March 2017.

Receivables as part of the segmental revenue above		
New Zealand	81	77
Australia	2,089	2,772
India	19	89
Singapore	1	4
United States	10	36
Other	23	6
	2,223	**2,984**
Allowance for impairment as part of trade receivables above		
India	7	7
	7	**7**

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

NON-CURRENT OPERATING ASSETS		
New Zealand	2,464	1,767
Australia	25	285
	2,489	**2,052**

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:

	2017	2016
	$(000)	$(000)
Loss attributable to ordinary equity holders of the parent		
Continuing operations	(3,450)	(6,234)
	(3,450)	**(6,234)**

	2017	2016
	NUMBER	NUMBER
Basic and diluted earnings per share		
Issued ordinary shares (refer note 15)	74,894	72,894
Weighted average of issued ordinary shares	73,074	64,738
Basic and diluted earnings per share (dollars)	**(0.05)**	**(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 $0.46 (2016: $0.95) 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.

	2017	2016
Unvested shares at 1 April	1,275,502	1,021,650
Granted	938,832	271,352
Forfeited	(264,135)	(13,500)
Vested	(590,973)	(4,000)
Unvested shares at 31 March – allocated to employees	**1,359,226**	**1,275,502**
Plus		
Forfeited shares not yet reallocated – held by trustee	287,590	23,455
Unallocated shares - held by trustee	1,532,142	443,481
Total Shares in Restricted Share Plan	**3,178,958**	**1,742,438**
Percentage of total ordinary shares	4.2%	2.4%
Ageing of unvested shares		
Vest within one year	184,084	536,364
Vest after one year	2,994,874	1,206,074
Total	**3,178,958**	**1,742,438**

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 non-recourse loan is due for repayment in June 2017.

23 EVENTS AFTER BALANCE SHEET DATE

There have been no significant events occurring after balance date (2016: no significant events).

24 CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (2016: $nil).

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 and Fidelity Life Assurance.

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 United States market but remains a strong supporter of the New Zealand start-up scene. Claudia runs the North American operations for New Zealand Trade & Enterprise (NZTE), supporting New Zealand businesses as they grow internationally into that market and is the digital advisor to the Board of Westpac New Zealand.

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 United Kingdom (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 Chairman of the Board of Chapman Eastway Pty Limited.

DARRIN GRAFTON

CO-FOUNDER, CHIEF EXECUTIVE OFFICER & EXECUTIVE DIRECTOR, NEW ZEALAND

APPOINTED 05 APRIL 2007

Darrin has 25+ years' experience in the travel technology industry and is a highly-experienced innovator. He has been responsible for leading major changes in the corporate travel industry throughout his career and was recognised as one of the top 25 most influential executives in the travel industry by the BTN Group in 2014. Darrin has 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 has previously been awarded the NZX Hi-Tech Entrepreneur Award and been a finalist for the NZ Hi-Tech Company Leader Award and the EY Entrepreneur of the Year Award. Darrin is a member of the Institute of IT Professionals New Zealand and the Institute of Directors New Zealand and New Zealand CDP.

ROBERT SHAW

CO-FOUNDER, CHIEF STRATEGY OFFICER & EXECUTIVE DIRECTOR, NEW ZEALAND

APPOINTED 05 APRIL 2007

Robert (Bob) has 30 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. Bob has previously been a finalist for EY Entrepreneur of the Year Award. He is a Member of the Institute of IT Professionals NZ, and the Institute of Directors NZ.

EXECUTIVE TEAM

CHARLIE NOWACZEK

CHIEF OPERATING OFFICER, NEW ZEALAND

Charlie has over 25 years' of experience as an operations executive and management adviser, specialising in business transformation and operational excellence. Over the last decade he has been Chief Operating Officer for a number of technology start-ups in the United States and Canada, including most recently, Kinetic Social – a social media and technology company, where he was part of the founding team.

Prior to these entrepreneurial endeavours, Charlie has been a consultant for PIPC, PA Consulting and Parsons Brinckerhoff, focusing on the delivery of complex change programmes for a variety of United States and European clients.

SUSAN PUTT

CHIEF FINANCIAL OFFICER, NEW ZEALAND

Susan has over 25 years' experience working in New Zealand and has also worked in Australia and Canada. She is a Chartered Accountant and Chartered Member of the Institute of Directors. Susan has worked as CFO, Head of Strategy, and director for a number of New Zealand businesses including Airways Corporation, Genesis Power, Metrowater, Simpl Group and Radiola Corporation.

Over the last 10 years Susan has specialised in contract Chief Financial Officer engagements working with high growth companies.

PHILIP BALL

CHIEF TECHNOLOGY OFFICER, NEW ZEALAND

Philip has been a cornerstone of the Serko technology story since 1999. After graduating with a Bachelor of Information Systems degree he joined Serko as a junior developer and moved up through the ranks, being appointed Chief Technology Officer in 2013.

Philip wrote much of the original Serko Online code, having started working 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 title of New Zealand Software Developer of the year award in 2011 and is listed in New Zealand's CIO Top 100 for 2017.

JOHN CHALLIS

CHIEF REVENUE OFFICER, AUSTRALIA

John has 17 years' experience in the Australian corporate travel industry, with operational, technology implementation and sales experience. John has been with Serko for nine 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.

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.

GOVERNANCE

The Board and management of Serko Limited (Serko or the company) are very committed to ensuring that Serko maintains corporate governance practices that are in line with, or where possible exceed, current best practice and that Serko 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 substantially 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 by undertaking refresher training on the Code during the year and establishing an email address that enables employees to raise any concerns directly with the non-executive directors.

The *Code of Ethics* addresses:

- Serko's Values
- 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.

Serko Culture and Values

Serko's culture is upbeat, nimble, dynamic and inclusive. We hire top talent from the technology and travel industries to ensure that our people (Serkodians) have the skills and astute judgement to make smart decisions that lead us to success – within a strategic framework established collaboratively with our leadership group, Executive Team and Board.

Serko's people are incentivised for achieving results. We are establishing OKRs (Objectives and Key Results) throughout all teams and supporting our people with learning and development initiatives to encourage us to keep finding new ways to innovate.

To articulate our culture we developed the following eight values that not only describe what is important to us but also provide a code for how we behave toward each other, influencing decisions such as who we hire, how people select what they work on and how our people are led. As a result we have a highly engaged, energised culture resulting in turnover that is low compared to industry norms.

Mastery	Serkodians continuously strive to become masters of what they do
Autonomy	Serkodians are able to work independently and make decisions for themselves
Teamwork	Serkodians work well with people not just in their own teams but in teams across the organisation
Passion	Serkodians are passionate about what they do and what Serko does
Integrity	Serkodians deliver on their commitments, are honest and make ethical business decisions
Success	Serkodians strive toward their goals to ensure Serko reaches its goals
Family	Serkodians are valued as part of the Serko family and Serko recognises the importance of their families to them
Fun	We value humour, laughter and enjoying our time at Serko.

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 black-out 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.

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, remain agile and ensure decision-making occurs at the right level, 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 and the appropriateness of its Delegation of Authority Policy.

The Board met for 12 regularly scheduled meetings during the financial year and additional special meetings. In addition to formally scheduled Board meetings, the directors regularly engage with management on areas of focus for management. There were also separate meetings of the Board committees during the year. The Board currently intends to meet 11 or 12 times during the financial year ending 31 March 2018.

The Board and management also met during the year to undertake strategic planning for the business.

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 2017, and the date of this Annual Report, the Board comprised five directors – being the two co-founders and executive directors, 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 **Board of Directors**.

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. 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 and compliance
- Strategy and operations
- Finance, accounting and risk management
- Capital markets
- Public company director experience.

The Board regularly reviews the skills matrix as part of its succession planning.

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 2017, 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. During the Board's annual evaluation process, training needs are considered to assist directors to remain upskilled on the business, industry and legislative developments.

All directors have access to senior management to discuss issues or obtain information on specific areas or items to be considered at Board meetings or other areas they consider appropriate, and each director actively utilises this access to support the company and the executives.

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 2017, performance reviews took place in accordance with that process, including undertaking an externally facilitated Board evaluation 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, Susan Putt, 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 Chairman, 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.

The table below shows the Board and Committee meeting attendance during the year ended 31 March 2017:

DIRECTOR ATTENDANCE	BOARD	AUDIT & RISK COMMITTEE	REMUNERATION & NOMINATIONS COMMITTEE
TOTAL NUMBER OF MEETINGS HELD	**12**	**6**	**4**
Darrin Grafton	12	–	–
Bob Shaw	12	–	–
Simon Botherway	12	6	4
Clyde McConaghy	11	6	4
Claudia Batten	12	6	4

– Indicates the director is not a member of the Committee (although they were in attendance for these meetings).

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.

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 (Chairman), Simon Botherway and Claudia Batten. All members are independent, non-executive directors. Their qualifications and experience is set out under **Board of Directors**.

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.

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 (Chairman), Simon Botherway and Clyde McConaghy. All members are independent, non-executive directors. Their qualifications and experience is set out under **Board of Directors**.

REPORTING AND DISCLOSURE

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).

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.

REMUNERATION

Non-executive director remuneration

Serko's shareholders have approved a total cap of $350,000 per annum for non-executive directors' fees, for the purposes of the NZX Listing Rules. This annual fee pool has not been increased since it was approved by shareholders in 2014. 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. Currently no Committee fees are paid to 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 directors' 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*.

1 Subject to exchange rate fluctuations.

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).

Details of the total remuneration of, and the value of other benefits received by, each non-executive Director of Serko during the financial year ended 31 March 2017 were as follows:

	TOTAL REMUNERATION (a) ($)
Simon Botherway	70,000
Clyde McConaghy	60,207
Claudia Batten	60,207
	190,414

(a) The figures shown are gross amounts and exclude GST (where applicable). In addition to these amounts, Serko meets costs incurred by non-executive directors that are incidental to the performance of their duties. This includes paying the costs of directors' travel. As these costs are incurred by Serko to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the above table.

Executive director remuneration

Darrin Grafton and Bob Shaw, the executive directors on the Board for the period ended 31 March 2017, 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 each receive a base salary of $250,000 per annum for performing these executive roles. They are also eligible to receive a performance-based, at-risk, short-term incentive payment if pre-determined individual and company performance criteria is met. The executive directors may also participate in Serko's long-term incentive scheme (detailed below) if specified performance criteria is met.

The executive directors' performance is reviewed by the Board annually. During the financial period ended 31 March 2017, performance reviews took place in accordance with that process.

During the period ended 31 March 2017, both executive directors were responsible for contributing to key performance indicators relating to: (1) delivery of operational value drivers linked to Serko's strategy; (2) delivering shareholder value; (3) meeting performance targets in respect of customer satisfaction and retention; and (4) maintaining a positive and safe working environment. Delivery of these KPIs is used to assess whether pre-performance hurdles are met in relation to the granting of long-term incentives for the FY18 year and determining the individual component of any short-term incentive payable for the FY17 year. In addition, pay out of any short-term incentive is dependent on meeting pre-determined revenue and EBITDA targets during the financial period.

No termination payments are payable to the executive directors in the event of serious misconduct.

Details of the total remuneration earned by or paid to each executive director of Serko during the financial year ended 31 March 2017 was as follows:

	BASE SALARY (a)	SHORT-TERM INCENTIVES (b)	LONG-TERM INCENTIVE (c)
Darrin Grafton	287,636	21,000	$25,599.82 in the form of 39,512 restricted shares
Robert Shaw	285,414	10,500	$5,899.78 in the form of 9,106 restricted shares

(a) Darrin Grafton's and Robert Shaw's base salary each includes an accrual of $62,500, which was earned during FY17 but paid in FY18. Base salary includes employer contributions towards KiwiSaver and certain benefits (a car allowance, carpark and medical insurance). No executive director receives any directors' fees.

(b) The short-term incentive stated was earned in FY17 and will be paid in FY18. No short-term incentive was earned in FY16 and paid in FY17.

(c) The FY17 long-term incentive was granted in July 2016, following partial achievement of pre-grant performance targets based on FY16 performance. The restricted shares will vest three years after the allocation date.

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 if pre-determined performance targets are met. No short-term incentive in respect of the FY16 financial year was paid during the year ended 31 March 2017, owing to the organisation not reaching the target thresholds allowing any pay out. It is anticipated that a short-term incentive payment based on the performance of the company relative to a number of KPI measures will be made in respect of the FY17 year during the FY18 year.

In addition, Serko operates a 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 long-term shareholder value and to reward the achievement of Serko's strategies and business plans. During the year ended 31 March 2017, eligible Australian and New Zealand resident employees were only allocated a portion of their contractual potential under this scheme owing to the organisation only reaching some of its pre-grant company-wide performance targets. 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 that 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 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 2017, 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 2017 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	TOTAL NUMBER OF EMPLOYEES
$100,000 – $110,000	5
$110,001 – $120,000	10
$120,001 – $130,000	7
$130,001 – $140,000	7
$140,001 – $150,000	6
$150,001 – $160,000	2
$160,001 – $170,000	2
$200,001 – $210,000	1
$220,001 – $230,000	2
$430,001 – $440,000 (d)	1
$930,001 – $940,000 (d)	1
Total	**44**

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.

(d) Includes the vesting of long-term incentives for departing executives.

DIVERSITY & INCLUSION

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 2017, Serko employees represented 19 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 2016 and 31 March 2017 are set out in the table below:

	FEMALE				MALE			
	2017		2016		2017		2016	
	No.	%	No.	%	No.	%	No.	%
Directors	1	20%	1	20%	4	80%	4	80%
Senior executives[(a)]	1	14%	0	0%	6	86%	7	100%
Senior employees[(b)]	7	47%	8	62%	8	53%	5	38%
Remaining workforce	40	44%	44	40.7%	47	56%	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

This year the Board agreed to reinforce Serko's commitment to diversity by extending Serko's diversity goals to include measures of success. 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. At the end of each year report the statistics relating to new hires to demonstrate a continuation of our current diverse talent pool, including ensuring a diverse range of cultures, ages and genders is maintained (or strengthened), with the long-term goal of having 50% of the Board, Executive and Leadership Team being women.

  Progress: A conscious effort has been made during FY17 to improve gender diversity in the leadership group. While appointments were made on merit, consideration was also given during the process to ensuring more women were represented amongst the Leadership Team. The result is that we now have women not only represented on our Board but also in our Executive Team and wider leadership group. Serko also puts effort into ensuring we maintain the diversity of ethnicity that we have at Serko and currently have 20 different nationalities represented amongst our employees. Our people are encouraged to celebrate their cultures at work, with regular fun highlights of cultural festivals taking place. This diversity of ethnicity helps us also in bringing perspectives from around the world to influence the way our product is developed.

- **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. Measure and report on the gender composition of internal movements/promotions of our people with a view to achieving greater diversity at leadership levels.

  Progress: While the organisation size shrunk during FY17, as we had a keen eye on cost control, this also had the effect of reducing the imbalance between men and women in the organisation as a whole – with the gap narrowing to 56% men, 43% women. We believe this ratio of female representation to be high in comparison to hi-tech industry standards.

  While women are represented now at all levels in our organisation (although in low numbers in leadership still) there are a number of professions that have a dominant female workforce and others that have very low female representation within Serko. We believe, however, that given the cross-functional nature of many of our working teams, we still experience the benefit of diverse perspectives within our work (for example, in many instances male developers and female testers are collaborating on the same piece of work).

- **Objective:** Reward excellence and ensure employees are treated fairly, evaluated objectively and promoted on the basis of their performance. Conduct an annual pay parity audit to ensure that groups are not being disadvantaged on the basis of their gender. Ensure this covers both internal pay equity and also application of budget for pay review.

  Progress: Our pay equality audit demonstrated general pay parity across roles. The salary review budget was also demonstrated to have been applied fairly across both genders. Equal numbers of male and female employees were promoted into new roles during the FY17 year.

RISK MANAGEMENT

Risk Management Framework

Serko has designed and implemented a comprehensive risk management 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
- Manage the risks associated with Serko's operations.

The Board ultimately has responsibility for risk management 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 conducts six-monthly reviews of Serko's risk management framework, risk appetite and principal risks and satisfied itself that the company's approach to risk continues to be sound.

GOVERNANCE AND STATUTORY DISCLOSURES

Principal risks for the group are:

- Failure to execute strategy and inability to achieve planned revenues
- Reliance on Travel Management Companies (TMCs) and the revenue concentration among our largest TMC customers
- Unpredictable sales cycle and lead-time for on-boarding of key customers
- Protecting its intellectual property and competition from new entrants
- IT security and privacy breaches and interruptions to service hosting affecting continuity of service
- Key personnel, recruitment and staff retention
- Global impacts to travel industry
- Currency risk

Serko has in place mitigation strategies for managing each of these risks.

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 auditor, with oversight from the Audit and Risk Committee.

Health and Safety

The Board and management have sought to establish leading practices within Serko that promote a safe and healthy working environment for everyone working in, or interacting with, Serko's business. Serko has adopted a Health and Safety Policy that 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 reviews health and safety reports at each Board meeting and oversees 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. The Accident Compensation Corporation conducted an independent audit of Serko's Health and Safety Management system during the financial period, awarding Serko with secondary accreditation.

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 Ernst & Young Lead Audit Partner, Jon Hooper, is required to rotate for the FY18 audit and the Audit and Risk Committee is actively managing this transition.

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 and the lead audit partner has direct contact with the Chairman of the Audit and Risk Committee.

The auditor is restricted in the non-audit work it may perform, as detailed in Serko's External Audit Independence Policy. 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. The Audit and Risk Committee regularly monitors the ratio of fees for audit to non-audit work.

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. Go to: www.serko.com/investor-centre/
- 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 2017 Annual Shareholders' Meeting will be held in Auckland on 23 August 2017. 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

Directors have given general notices disclosing interests pursuant to section 140(2) of the Companies Act 1993. Those interests (and any changes to interests) notified and recorded in Serko's Interests Register during the financial year ended 31 March 2017 are set out below:

DIRECTOR	ENTITY	RELATIONSHIP
Simon Botherway	Fidelity Life Assurance	Appointed Director
Claudia Batten	Westpac New Zealand Limited	Appointed Digital Advisor to the Board
Clyde McConaghy	Chapman Eastway Pty Limited	Appointed Chairman

There were no entries in the Interests Register for the purposes of section 140(1) of the Companies Act 1993.

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 2017:

NAME	DATE OF ACQUISITION/DISPOSAL	NUMBER OF SHARES ACQUIRED/(DISPOSED)	NATURE OF RELEVANT INTEREST	CONSIDERATION PAID/RECEIVED
Darrin Grafton	7 July 2016	39,512 restricted shares[a]	Beneficial interest in ordinary shares with restrictive conditions allocated pursuant to the Serko Limited Employee Restricted Share Scheme, held in trust until vesting.	$25,599.82
	7 July 2016	2,017 restricted shares[b]	The power to dispose of, or to control the disposal of, 2,017 ordinary shares with restrictive conditions issued pursuant to the Serko Restricted Share Scheme.	$1,306.81
Bob Shaw	7 July 2016	9,106 restricted shares[c]	Beneficial interest in Ordinary Shares with restrictive conditions allocated pursuant to the Serko Limited Employee Restricted Share Scheme, held in trust until vesting.	$5,899.78

NOTES:

(a) These shares are subject to a deed restricting exercise of voting rights attached to the shares.

(b) These shares are subject to a deed restricting exercise of voting rights attached to the shares. 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.

(c) These shares are subject to a deed restricting exercise of voting rights attached to the shares.

In accordance with the NZX Listing Rules, as at 31 March 2017, directors had a relevant interest (as defined in the Financial Markets Conduct Act 2013) in Serko ordinary shares as follows:

NAME	RELEVANT INTEREST	PERCENTAGE
Darrin Grafton [a]	14,250,562	19.028%
Bob Shaw [b]	12,893,402	17.215%
Simon Botherway [c]	2,319,000	3.096%
Claudia Batten	181,818	0.243%
Clyde McConaghy [d]	181,818	0.243%

NOTES:

(a) 12,667,629 shares are held via a trust in which the director is a trustee and beneficiary. Includes the power to exercise, or to control the exercise of, a right to vote attached to 1,537,594 shares and 5,917 restricted shares by virtue of a personal relationship with the legal and beneficial holder respectively of these shares. Includes beneficial interest in 39,512 restricted shares allocated pursuant to the Serko Employee Restricted Share Scheme and held on trust until vesting.

(b) 12,884,296 shares are held via a trust in which the director is a trustee and beneficiary. Includes beneficial interest in 9,106 restricted shares allocated pursuant to the Serko Employee Restricted Share Scheme and held on trust until vesting.

(c) Partially held via a trust in which the director is a trustee and beneficiary.

(d) Held via a trust in which the director is a trustee and beneficiary.

For the purposes of section 161 of the Companies Act 1993, the following entries were made in the Interests Register in relation to the payment of remuneration and other benefits to directors:

DATE	DIRECTOR	PARTICULARS OF BOARD AUTHORISATION
21 June 2016	Bob Shaw Darrin Grafton	The payment of remuneration and the provision of other benefits by the c ompany and making of the loan by the company under the Restricted Share Scheme on the terms set out in the resolution dated 21 June 2016 and in accordance with the terms of the Serko Employee Restricted Share Scheme documentation.

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 30 April 2017 there were 74,894,342 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 [(a)]	%	NUMBER OF ORDINARY SHARES	%
1 to 1,000	101	13.06	81,695	0.11
1,001 to 5,000	316	40.88	1,005,087	1.34
5,001 to 10,000	118	15.27	999,276	1.33
10,001 to 50,000	159	20.57	3,585,772	4.79
50,001 to 100,000	32	4.14	2,295,893	3.07
100,001 and over	47	6.08	66,926,619	89.36
	773	**100.00**	**74,894,342**	**100.00**

(a) Includes 3,178,958 ordinary shares with restrictive conditions held by Serko Trustee Limited on behalf of 65 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 30 April 2017 there were 101 shareholders holding between 1 and 1,000 ordinary shares (a minimum holding under the NZX Listing Rules), in respect of 81,695 shares.

Set out below are details of the 20 largest shareholders of Serko as at 30 April 2017:

	SHAREHOLDER [(a)]	NUMBER OF ORDINARY SHARES HELD	%
1.	Robert James Shaw & Sarah Elizabeth Shaw	12,884,296	17.20
2.	Darrin Grafton & Geoffrey Robertson Ashley Hosking	12,667,629	16.91
3.	National Nominees New Zealand Limited	9,033,276	12.06
4.	Serko Trustee Limited	3,178,958	4.24
5.	Cogent Nominees Limited	2,477,462	3.31
6.	Simon John Botherway & Msh Trustee (Arrow) Limited	2,034,091	2.72
7.	JPMORGAN Chase Bank	1,749,992	2.34
8.	Public Trust Forte Nominees Limited	1,646,893	2.20
9.	Donna Bailey	1,537,594	2.05
10.	Philip Rodger Ball	1,537,594	2.05
11.	Michael John Thorburn	1,521,711	2.03
12.	Sherie Robyn Hammond	1,485,344	1.98
13.	Accident Compensation Corporation	1,380,000	1.84
14.	Joanne Maree Phipps	1,345,972	1.80
15.	Public Trust	1,174,174	1.57
16.	Tracey Ann Shorter	1,123,041	1.50
17.	Robert Alan Hawker & Elizabeth Anne Hawker	1,117,050	1.49
18.	John S Challis & Ah Trustees (Challis Holdings) Ltd	865,762	1.16
19.	Timothy Mark Bluett	814,404	1.09
20.	Public Trust Rif Nominees Limited	492,123	0.66

(a) The shareholding of New Zealand Central Securities Depository Limited (custodian for members trading through NZClear) has been re-allocated to the applicable members.

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 2017. As at the balance date (31 March 2017) there were 74,894,342 Serko Limited ordinary shares on issue.

SUBSTANTIAL PRODUCT HOLDER	NUMBER OF ORDINARY SHARES IN WHICH RELEVANT INTEREST IS HELD	% OF CLASS HELD AT DATE OF LAST NOTICE
Geoffrey Hosking	25,573,925	35.084%
Darrin Grafton	14,209,033	19.493%
Robert (Bob) Shaw and Sarah Shaw	12,884,296	17.675%
Milford Asset Management Limited	6,095,817	8.376%

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 2017 are included in the relevant bandings for remuneration disclosed on page 52 of this *Annual Report*.

The following persons held office as directors of subsidiary companies as at 31 March 2017:

Serko Australia Pty Limited

Darrin Grafton
Bob Shaw
John Challis

Serko Trustee Limited*

Susan Putt
Fiona Rockel

**Timothy Bluett retired as a director during the financial year.*

Serko Investments Limited

Darrin Grafton
Bob Shaw

Serko India Private Limited

Darrin Grafton
Bob Shaw
Yogita Chadha

As at 31 March 2017 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 2017.

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*
ATMR	ATMR (Annualised Transactional Monthly Revenue) is a non-GAAP measure. Serko uses this as a useful indicator of recurring revenue from Serko products based on the monthly transactions from the most recent month (March 17)
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
EBITDA	EBITDA is a non-GAAP measure representing Earnings Before the deduction of costs relating to Interest, Taxation, Depreciation and Amortisation, and Impairment
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
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
R&D	Research and Development expenditure
Serko Expense Management business	The Australian-based travel management expense business, Incharge Group Pty Limited, that Serko acquired on 20 December 2013
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
serko.travel	Serko's cloud-based online travel booking solution for small to medium enterprises
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).

Registered Office	Unit 14D Saatchi & Saatchi Building 125 The Strand Parnell Auckland 1010 New Zealand +64 9 309 4754 www.serko.com ARBN: 611 613 980
Directors (as at date of this *Annual Report*)	Simon Botherway (Chariman) Claudia Batten Robert (Clyde) McConaghy Darrin Grafton Robert (Bob) Shaw
Share Registrar	Link Market Services Limited Level 11, Deloitte House 80 Queen Street Auckland 1010 New Zealand +64 9 375 5998 serko@linkmarketservices.co.nz
Auditor	Ernst & Young Auckland EY Building 2 Takutai Square Britomart Auckland 1010 +64 9 377 4790

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