Reckon Limited
ACN 003 348 730

Directors' Report

Your directors present their report for the half-year ended 30 June 2015.

Directors

The names of the company's directors in office during the half-year and until the date of this report are as follows:

John Thame (resigned 30 June 2015)
Ian Ferrier
Greg Wilkinson
Clive Rabie
Chris Woodforde (appointed 1 July 2015)

Review of Operations

Overview of financial performance for the half-year:

	30 June 2015 $'000	% growth	30 June 2014 $'000
Operating revenue	$ 53,952	6%	$ 51,100
EBITDA	$ 20,213	5%	$ 19,267
Net profit after tax	$ 9,326	-1%	$ 9,463
Earnings per share	7.9 cents	8%	7.3 cents

Reckon is pleased to announce revenue growth for the half year ended 30 June 2015 of 6% and EBITDA growth of 5%. The focus on volume growth across all divisions has paid dividends, and substantial progress has been made in further entrenching the group as a subscription business with strong online capability and international reach.

Accountants Group

- Accountants Group revenue has grown by 6% and EBITDA by 4%.
- The ReckonDocs content business has again performed strongly with revenue growth of 10%.
- Subscription revenue grew 8%, mainly as a result of volume growth from both new customers and cross selling additional modules into the existing customer base.
- Subscription revenue now represents 91% of practice management revenue.
- The move to a subscription model in the Accountants Group has been substantially completed.
- As expected the strongest customer interest has been in the Document Management, Workpaper Management and SyncDirect modules. The market potential for each of these products is significant.

Business Group

- Business group revenue and EBITDA is marginally down on last year as we have aggressively moved this division towards a subscription only model this half year.
- Whilst we have continued to see volume growth in this business, moving to a subscription model impacts revenue in two ways, firstly subscription products are generally cheaper than the products that are being replaced, and secondly some subscription products are offered with a monthly payment option thereby delaying revenue recognition.
- Our products in this division are priced substantially lower than our competitors, therefore providing competitive advantages and future pricing upside.
- This movement to a subscription model has resulted in subscription revenue being up 42% on the prior year and this now represents 71% of core product revenue in this division.
- The quantum of ReckonOne units that have been sold since the latest version was released in June have increased substantially. This early indication of success with Reckon One has encouraged us to continue our high level of investment in that product.
- Cloud revenue has grown 44% and represents 30% of core product revenue, and we remain confident that we can achieve continued strong growth in this market.

International Group

- International Group revenue has grown by 19% and EBITDA by 44%.
- International revenue now represents 19% of group revenue and this division is poised to become a much more substantial part of the group in future.
- The above result is net of a continued investment in taking Reckon One to the UK, and Virtual Cabinet to the USA (no revenue has been booked as yet). Both of these are significant markets in their own right.
- Virtual Cabinet has been launched into the USA at a number of accountant's conferences and the product has been met with a positive response.
- Demand in the International Group has been strong with a good backlog of orders in place for delivery in the second half.
- Subscription revenue is 18% up on last year and now represents 77% of the revenue in the division.

An earnings per share growth of 8% is a significant achievement and validates the decision to acquire Intuit's shares last year.

The Board has declared an interim dividend of 4.25 cents (2014: 4.25 cents), and this dividend will again be franked to 60%.

Rounding of amounts to the nearest thousand dollars

The Company is a company of the kind referred to in ASIC Class Order 98/100, and in accordance with that Class Order, amounts in the directors' report and the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration

We have obtained an independence declaration from our auditors, Deloitte Touche Tohmatsu, which is attached to these financial statements.

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

On behalf of the directors

Chairman

Sydney, 11 August 2015

Condensed Consolidated Statement of Profit or Loss for the half-year ended 30 June 2015

	Note	Half-year 30 June 2015 $'000	30 June 2014 $'000
Continuing operations			
Revenue from sale of goods and rendering of services	2	53,952	51,110
Product and selling costs		(11,624)	(10,023)
Royalties		-	(148)
Employee benefits expenses		(16,161)	(15,626)
Marketing expenses		(1,334)	(1,162)
Premises and establishment expenses		(1,313)	(1,392)
Telecommunications		(367)	(467)
Depreciation and amortisation of other non-current assets		(7,544)	(6,314)
Finance costs		(995)	(447)
Other expenses		(2,940)	(3,025)
Profit before income tax		11,674	12,506
Income tax expense		(2,348)	(3,043)
Profit for the half-year		**9,326**	**9,463**
Profit attributable to:			
Owners of the parent		8,822	9,240
Non-controlling interest		504	223
		9,326	9,463
Earnings per share		cents	cents
Basic earnings per share		7.9	7.3
Diluted earnings per share		7.9	7.3

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2015

	Half-year	
	30 June 2015 $'000	30 June 2014 $'000
Profit for the half-year	**9,326**	**9,463**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value movement on interest rate swap	(15)	-
Exchange differences on translation of foreign operations	1,718	(693)
	1,703	(693)
Total comprehensive income	**11,029**	**8,770**
Profit and comprehensive income is attributable to:		
Owners of the parent	10,525	8,547
Non-controlling interest	504	223
	11,029	8,770

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position as at 30 June 2015

	Note	June 2015 $'000	December 2014 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		3,871	2,248
Trade and other receivables		9,716	9,409
Inventories		2,485	2,179
Current tax receivables		-	736
Other assets		2,248	2,125
Total Current Assets		18,320	16,697
Non-Current Assets			
Receivables		458	678
Other financial assets		56	56
Property, plant and equipment		2,627	2,787
Deferred tax assets		152	185
Intangible assets		87,084	82,379
Other assets		1,208	1,111
Total Non-Current Assets		91,585	87,196
Total Assets		109,905	103,893
LIABILITIES			
Current Liabilities			
Trade and other payables		5,587	4,604
Borrowings	5	-	76
Other financial liabilities		8,624	6,838
Current tax payables		122	-
Provisions		3,320	3,306
Deferred revenue		10,906	9,715
Total Current Liabilities		28,559	24,539
Non-Current Liabilities			
Borrowings	5	41,000	43,400
Other financial liabilities		261	245
Deferred tax liabilities		6,036	5,058
Provisions		591	582
Total Non-Current Liabilities		47,888	49,285
Total Liabilities		76,447	73,824
NET ASSETS		33,458	30,069
EQUITY			
Issued capital	3	16,820	17,036
Reserves		(42,087)	(42,154)
Retained earnings		58,725	55,187
TOTAL EQUITY		33,458	30,069

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity for the half-year ended 30 June 2015

	Issued capital $'000	Share buy back reserve $'000	Foreign currency translation reserve $'000	Share-based payments reserve $'000	Acquisition of non-controlling interest reserve $'000	Swap hedging reserve $'000	Retained earnings $'000	Non-controlling interest $'000	Total $'000
Total equity at 1 January 2015	**17,036**	**(42,018)**	**3,315**	**582**	**(3,788)**	**(245)**	**55,187**	**-**	**30,069**
Profit for the half-year							8,822	504	9,326
Fair value movement on interest rate swap						(15)			(15)
Exchange differences on translation of foreign operations			1,718						1,718
Total Comprehensive Income	-	-	1,718	-	-	(15)	8,822	504	11,029
Dividends paid							(5,284)		(5,284)
Share based payments expense				146					146
Transfer to acquisition of non-controlling interest reserve					504			(504)	-
Remeasurement of Linden House option liability					(2,286)				(2,286)
Treasury shares acquired	(216)								(216)
Total equity at 30 June 2015	**16,820**	**(42,018)**	**5,033**	**728**	**(5,570)**	**(260)**	**58,725**	**-**	**33,458**
Total equity at 1 January 2014	**16,818**	**(14,506)**	**2,500**	**484**	**(6,119)**	**-**	**48,938**	**-**	**48,115**
Profit for the half-year							9,240	223	9,463
Exchange differences on translation of foreign operations			(693)						(693)
Total Comprehensive Income	-	-	(693)	-	-	-	9,240	223	8,770
Dividends paid							(5,988)		(5,988)
Share based payments expense				158					158
Transfer to acquisition of non-controlling interest reserve					223			(223)	-
Remeasurement of Linden House option liability					2,067				2,067
Treasury shares acquired	-								-
Total equity at 30 June 2014	**16,818**	**(14,506)**	**1,807**	**642**	**(3,829)**	**-**	**52,190**	**-**	**53,122**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows for the half-year ended 30 June 2015

	Half-year 30 June 2015 $'000	30 June 2014 $'000
Cash Flows From Operating Activities		
Receipts from customers	59,240	57,202
Payments to suppliers and employees	(37,598)	(36,442)
Interest received/(paid)	(995)	(447)
Income tax paid	(479)	(2,216)
Net cash inflow from operating activities	20,168	18,097
Cash Flows From Investing Activities		
Payment for property, plant and equipment	(538)	(323)
Payment for purchase of business	(500)	(330)
Payment for purchase of intellectual property	-	(206)
Payment for capitalised internal systems costs	(751)	-
Payment for capitalised development costs	(9,627)	(7,795)
Proceeds from government grant (development costs)	773	607
Net cash inflow/(outflow) from investing activities	(10,643)	(8,047)
Cash Flows From Financing Activities		
Dividends paid	(5,284)	(5,988)
Payment for treasury shares	(216)	-
Proceeds from/(repayment of) borrowings	(2,476)	(1,783)
Net cash (outflow) from financing activities	(7,976)	(7,771)
Net Increase/(Decrease) In Cash and Cash Equivalents	1,549	2,279
Cash and cash equivalents at the beginning of the half-year	2,248	2,554
Effects of exchange rate changes on cash and cash equivalents	74	(46)
Cash and Cash Equivalents at the end of the half-year	3,871	4,787

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2015

Note 1. Basis of preparation of half-year report

This general purpose financial report for the interim half year ended 30 June 2015 has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

This interim financial report does not include all of the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2014 and any public announcements made by Reckon Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The condensed consolidated financial statements have been prepared on the basis of historical cost. All amounts are presented in Australian dollars.

The parent entity has applied the relief available to it under ASIC Class Order 98/100, and accordingly, amounts in the interim financial report have been rounded off to the nearest thousand dollars.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Note 2: Segment information

Primary segments	Business Group $'000	Accountants Group $'000	International Group $'000	Consolidated $'000
Half-year 2015				
Segment operating revenue	**19,462**	**24,203**	**10,287**	**53,952**
Other revenue				-
Total revenue				**53,952**
Segment EBITDA	**10,425**	**8,654**	**3,648**	**22,727**
Depreciation and amortisation	(2,556)	(3,260)	(1,728)	(7,544)
Total segment profit before tax	**7,869**	**5,394**	**1,920**	**15,183**
Central administration costs				(2,514)
Finance costs				(995)
Profit before tax				**11,674**
Income tax expense				(2,348)
Profit for the half-year				**9,326**
Half-year 2014				
Segment operating revenue	**19,608**	**22,852**	**8,650**	**51,110**
Other revenue				-
Total revenue				**51,110**
Segment EBITDA	**10,732**	**8,358**	**2,529**	**21,619**
Depreciation and amortisation	(1,351)	(3,429)	(1,534)	(6,314)
Total segment profit before tax	**9,381**	**4,929**	**995**	**15,305**
Central administration costs				(2,352)
Finance costs				(447)
Profit before tax				**12,506**
Income tax expense				(3,043)
Profit for the half-year				**9,463**

The revenue reported above represents revenue generated from external customers.

Segment profit represents the profit earned by each segment without allocation of central administration costs, finance costs and income tax expense, all of which are allocated to Corporate head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessing performance.

The principal activities of these divisions are as follows:

Business Group - development, distribution and support of business accounting and personal financial software, as well as related products and services. Products sold in this division include Reckon Accounts (formerly QuickBooks and Quicken) and Reckon One.

Professional Group - development, distribution and support of practice management, tax, client accounting and related software under the APS brand as wells as the ReckonDocs and Elite products.

International Group - distribution and support of cost recovery, cost management and related software under the nQueueBillback brand predominantly to the legal market, and development, distribution and support of document management and document portal products under the Virtual Cabinet brand.

Note 3. Issued capital

112,084,762 shares were in issue at 30 June 2015 and 31 December 2014.

116,115 treasury shares (2014: nil) were purchased in the current period.

Note 4. Dividends

	Half-year	
	30 June 2015 $'000	30 June 2014 $'000
Ordinary shares		
Dividends paid during the half-year	5,284	5,988
Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 4.25 cents per fully paid ordinary share (2014: 4.25 cents). The dividend will be 60% franked. The aggregate amount of the proposed dividend expected to be paid on 9 September 2015 out of retained profits at 30 June 2015, but not recognised as a liability at the end of the half-year, is	4,726	4,727

Note 5. Borrowings

The Group has total bank facilities of $59.1 million. The facility comprises a variable rate bank overdraft facility, and a multi option facility (which includes a bill facility and a bank guarantee/transactional facility). The facility covers a 3 year term expiring on 31 January 2017 in respect of the bill facility, and expiring on 30 April 2016 for the other facilities. The bill facility reduces by $1.5million on 1 July 2016, and thereafter $1.5million per quarter. The facility is secured over the Australian, New Zealand and Virtual Cabinet net assets. Reckon has partially hedged the bank borrowings.

Note 6. Working capital deficiency

The condensed consolidated statement of financial position indicates an excess of current liabilities over current assets of $10,239 thousand (December 2014: $7,842 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Unused bank facilities at balance date total $16.4 million. Furthermore, included in current liabilities is deferred revenue of $10,906 thousand (December 2014: $9,715 thousand), settlement of which will involve substantially lower cash flows.

Note 7. Fair value of financial instruments

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets, is determined with reference to quoted market prices. The fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions. The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models. The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised costs in the financial statements approximate their fair value.

Note 8. Subsequent events

The final 30% of Linden House Software Limited will be acquired effective 1 July 2015 for $9 million. The first tranche was paid on 31 July 2015, and the remainder is expected to be paid on conclusion of final due diligence.

Directors' Declaration

The directors declare that:

in the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position as at 30 June 2015 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) complying with accounting standards

(b) there are reasonable grounds to believe that Reckon Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

Ian Ferrier
Chairman

Sydney, 11 August 2015

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Reckon Limited
Level 12
65 Berry Street
North Sydney NSW 2060

11 August 2015

Dear Board Members

Reckon Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Reckon Limited.

As lead audit partner for the review of the financial statements of Reckon Limited for the half-year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alfred Nehama
Partner
Chartered Accountants

Deloitte.

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Independent Auditor's Review Report to the Members of Reckon Limited

We have reviewed the accompanying half-year financial report of Reckon Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2015, the condensed consolidated statement of profit or loss, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 3 to 11.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Reckon Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Reckon Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

Alfred Nehama
Partner
Chartered Accountants
Sydney, 11 August 2015