Directors' Report

Your directors present their report for the half-year ended 30 June 2016.

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

Ian Ferrier
Greg Wilkinson
Clive Rabie
Chris Woodforde

Review of Operations
Overview of financial performance for the half-year:

Reckon is pleased to announce revenue growth for the half year ended 30 June 2016 of 6%, and that it is on track for EBITDA guidance provided earlier in the year, whilst it continues to invest in new markets with high growth potential. The focus across all businesses remains on volume growth and entrenching the group as a true subscription business with strong online capability and international reach.

Practice Management Group
Revenue grew by 4% in the Practice Management Group. Software revenue grew by 9%, however this was partially offset by 5% lower content revenue in the half year. This division added the highest number of large new clients for a number of years, which further entrenches the business as the product of choice amongst the major accounting firms and adds to the very impressive customer list. This will result in a progressive increase in revenue in the 2nd half as these clients are installed. Content revenue was weak in Q1, however recovered substantially in Q2, resulting in a very strong overall Practice Management group result in Q2. The USA legal market has also continued to perform strongly in the half year, and the pipeline is very encouraging.

Document Management Group
The acquisition of Smart Vault in January 2016, continued growth in the United Kingdom and a ramp up in the penetration of the Australian and New Zealand markets, have all contributed to a 45% increase in revenue for this division in the half year. Good progress has been made in merging the Virtual Cabinet and Smart Vault technologies onto one cloud platform, positioning this business well to take advantage of substantial global markets over the coming years. Currently 560k businesses are connected to our customers via our products.

Business Group
Revenue reduced by 2% as the last of the major impacts of moving the business to a subscription model was substantially completed in Q1. The revenue reduction in Q1 was 6%, whereas Q2 showed growth of 1%. Cloud product revenue continued to grow strongly at 17% and now represents 30% of this division's revenue. ReckonOne payroll was launched in May and this has resulted in a significant increase in new customers added. ReckonOne was also launched in the UK in May. The unique modular design of this product will provide our competitive advantage as we make inroads in this global market. Overall cloud users now sit at 36k.

The group remains on track for EBITDA guidance of $34m to $36m, having achieved $18.5m in the first half. Existing business EBITDA growth was 5%, however $2.6m was spent on sales and marketing initiatives for new markets in the half year, which is expected to provide the revenue growth impetus for future years.

Net profit attributable to members reduced from $8.8m to $6.2m in the half year. This disguises the fact that the existing businesses achieved solid growth of 8%. The investment in new market initiatives flagged to the market earlier this year have adversely impacted results, however to a lesser extent than originally anticipated.

The development spend for the half year was $11.8m, which means that the group is on track for the lower end of guidance of $23m to $25m. More than 50% of the development spend was on the "new market" products referred to above.

The Board has declared an interim dividend of 2 cents (2015: 4.25 cents), and this dividend will again be unfranked.

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

Ian Ferrier
Chairman

Sydney, 9 August 2016

Condensed Consolidated Statement of Profit or Loss for the half-year ended 30 June 2016

	Note	Half-year 30 June 2016 $'000	30 June 2015 $'000
Continuing operations			
Revenue from sale of goods and rendering of services	2	57,010	53,952
Product and selling costs		(12,107)	(11,624)
Employee benefits expenses		(18,814)	(16,161)
Marketing expenses		(2,113)	(1,334)
Premises and establishment expenses		(1,209)	(1,313)
Telecommunications		(420)	(367)
Other expenses		(3,811)	(2,940)
Depreciation and amortisation of other non-current assets		(9,614)	(7,544)
Finance costs		(1,132)	(995)
Profit before income tax		7,790	11,674
Income tax expense		(1,618)	(2,348)
Profit for the half-year	3	**6,172**	**9,326**
Profit attributable to:			
Owners of the parent		6,172	8,822
Non-controlling interest		-	504
		6,172	9,326
Earnings per share	3	cents	cents
Basic earnings per share		5.5	7.9
Diluted earnings per share		5.5	7.9

Refer note 3 for an analysis of new market initiatives and ongoing business performance.

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 2016

	Half-year	
	30 June 2016 $'000	30 June 2015 $'000
Profit for the half-year	**6,172**	**9,326**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value movement on interest rate swap	75	(15)
Exchange differences on translation of net asset values of foreign operations	(3,175)	1,718
	(3,100)	1,703
Total comprehensive income	**3,072**	**11,029**
Profit and comprehensive income is attributable to:		
Owners of the parent	3,072	10,525
Non-controlling interest	-	504
	3,072	11,029

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 2016

	Note	June 2016 $'000	December 2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		2,772	1,641
Trade and other receivables		10,115	9,327
Inventories		2,661	2,471
Current tax receivables		2,431	2,032
Other assets		2,761	2,156
Total Current Assets		20,740	17,627
Non-Current Assets			
Receivables		112	168
Other financial assets		6	17
Property, plant and equipment		2,519	2,485
Deferred tax assets		598	193
Intangible assets		95,914	89,303
Other assets		1,756	1,350
Total Non-Current Assets		100,905	93,516
Total Assets		121,645	111,143
LIABILITIES			
Current Liabilities			
Trade and other payables		7,390	5,508
Borrowings	6	667	-
Current tax payables		-	-
Provisions		3,939	3,653
Deferred revenue		11,933	10,653
Total Current Liabilities		23,929	19,814
Non-Current Liabilities			
Borrowings	6	54,672	49,900
Other financial liabilities		101	176
Deferred tax liabilities		6,695	6,678
Provisions		823	659
Total Non-Current Liabilities		62,291	57,413
Total Liabilities		86,220	77,227
NET ASSETS		35,425	33,916
EQUITY			
Issued capital	4	18,611	16,929
Reserves		(45,774)	(42,767)
Retained earnings		62,588	59,754
TOTAL EQUITY		35,425	33,916

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 2016

	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 2016	**16,929**	**(42,018)**	**4,941**	**638**	**(6,152)**	**(176)**	**59,754**	**-**	**33,916**
Profit for the half-year							6,172		6,172
Fair value movement on interest rate swap						75			75
Exchange differences on translation of net asset values of foreign operations			(3,175)						(3,175)
Total Comprehensive Income	-	-	(3,175)	-	-	75	6,172	-	3,072
Dividends paid							(3,338)		(3,338)
Dividend re-investment plan	1,682								1,682
Share based payments expense				93					93
Total equity at 30 June 2016	**18,611**	**(42,018)**	**1,766**	**731**	**(6,152)**	**(101)**	**62,588**	**-**	**35,425**
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 net asset values 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**

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 2016

	Note	Half-year 30 June 2016 $'000	30 June 2015 $'000
Cash Flows From Operating Activities			
Receipts from customers		62,030	59,240
Payments to suppliers and employees		(42,989)	(37,598)
Interest received/(paid)		(1,132)	(995)
Income tax paid		(2,519)	(479)
Net cash inflow from operating activities		15,390	20,168
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(417)	(538)
Payment for purchase of business	10	(5,785)	(500)
Payment for capitalised internal systems costs		(715)	(751)
Payment for capitalised development costs		(12,130)	(9,627)
Proceeds from government grant (development costs)		1,089	773
Net cash inflow/(outflow) from investing activities		(17,958)	(10,643)
Cash Flows From Financing Activities			
Dividends paid		(1,656)	(5,284)
Payment for treasury shares		-	(216)
Proceeds from/(repayment of) borrowings		5,439	(2,476)
Net cash inflow/(outflow) from financing activities		3,783	(7,976)
Net Increase In Cash and Cash Equivalents		1,215	1,549
Cash and cash equivalents at the beginning of the half-year		1,641	2,248
Effects of exchange rate changes on cash and cash equivalents		(84)	74
Cash and Cash Equivalents at the end of the half-year		2,772	3,871

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 2016

Note 1. Basis of preparation of half-year report

This general purpose financial report for the interim half year ended 30 June 2016 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 2015 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	Practice Management Group $'000	Document Management Group $'000	Consolidated $'000
Half-year 2016				
Segment operating revenue	**19,140**	**30,580**	**7,290**	**57,010**
Other revenue				-
Total revenue				**57,010**
Segment EBITDA	**9,931**	**10,281**	**790**	**21,002**
Depreciation and amortisation	(3,757)	(4,389)	(1,468)	(9,614)
Total segment profit before tax	**6,174**	**5,892**	**(678)**	**11,388**
Central administration costs				(2,466)
Finance costs				(1,132)
Profit before tax				**7,790**
Income tax expense				(1,618)
Profit for the half-year				**6,172**
Half-year 2015				
Segment operating revenue	**19,462**	**29,445**	**5,045**	**53,952**
Other revenue				-
Total revenue				**53,952**
Segment EBITDA	**10,425**	**10,116**	**2,186**	**22,727**
Depreciation and amortisation	(2,556)	(4,407)	(581)	(7,544)
Total segment profit before tax	**7,869**	**5,709**	**1,605**	**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**

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 and Reckon One.

Practice Management Group - development, distribution and support of practice management, tax, client accounting and related software and services under the APS brand as well as the ReckonDocs and Elite brands. Development, distribution and support of cost recovery, cost management and related software under the nQueueBillback brand predominantly to the legal market.

Document Management Group - development, distribution and support of document management and document portal products under the Virtual Cabinet and Smart Vault brands.

In the prior year nQueueBillback was combined with the Virtual Cabinet business to form the International Group. In 2016 nQueueBillback has been combined with the Accountants Group to form the Practice Management Group, and Virtual Cabinet together with the recently acquired Smart Vault business will now form the Document Management Group. The 2015 results have been restated to reflect these changes.

	Half-year	
	30 June 2016	30 June 2015
	$'000	$'000

Note 3. New market initiatives

Reckon has made substantial investments in establishing and developing Reckon One for both the domestic and international markets as well as establishing the Document Management market in the USA. This investment has distorted the underlying trading results of the existing businesses, and hence an analysis of the new market initiatives and the existing businesses is set out below:

	New market initiatives	Existing Businesses	30 June 2016 $'000	30 June 2015 $'000
Operating revenue	**2,042**	**54,968**	**57,010**	**53,952**
EBITDA	**(2,603)**	**21,139**	**18,536**	**20,213**
Depreciation and amortisation	(3,123)	(6,491)	(9,614)	(7,544) *
Profit before interest and tax	**(5,726)**	**14,648**	**8,922**	**12,669**
Finance costs			(1,132)	(995)
Income tax expense			(1,618)	(2,348)
Profit for the half-year			**6,172**	**9,326**

* Includes $1,403 thousand of new market amortisation

Note 4. Issued capital

113,294,832 shares were in issue at 30 June 2016 and 112,084,762 at 31 December 2015.

Nil treasury shares (2015: 116,115) were purchased in the current period.

The Group implemented a dividend re-investment plan in 2016. 1,210,070 shares were issued in 6 April 2016 under this plan.

Note 5. Dividends

Ordinary shares

	30 June 2016 $'000	30 June 2015 $'000
Dividends paid during the half-year	3,338	5,284

$1.7 million of this dividend was reinvested via the DRP.

Dividends not recognised at the end of the half-year

	30 June 2016 $'000	30 June 2015 $'000
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 2 cents per fully paid ordinary share (2015: 4.25 cents). The dividend will be unfranked. The aggregate amount of the proposed dividend expected to be paid on 2 September 2016 out of retained profits at 30 June 2016, but not recognised as a liability at the end of the half-year, is	2,249	4,726

Note 6. Borrowings

The Group has increased its bank facilities to $70 million. The facility comprises variable rate bank overdraft facilities, loan facilities and bank guarantee and transactional facilities. The loan facility expires on August 2019 and the other facilities expire in April 2017. The facility is secured over the Australian, New Zealand and UK assets. Reckon has partially hedged the bank borrowings.

Note 7. Working capital deficiency

The condensed consolidated statement of financial position indicates an excess of current liabilities over current assets of $3,189 thousand (December 2015: $2,187 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 $13.3 million. Furthermore, included in current liabilities is deferred revenue of $11,933 thousand (December 2015: $10,653 thousand), settlement of which will involve substantially lower cash flows.

Note 8. 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 9. Subsequent events

Effective 29 July 2016 Reckon Limited has sold its Desktop Super business to SuperConcepts Software Services Pty Ltd (a subsidiary of AMP) for up to $2.5m, payable 50% on signing and the remainder subject to a 2 year earn-out period. This business was a small and non-core part of the Practice Management Group. An ongoing referral and alliance agreement between the parties has also been signed establishing a long-term arrangement for jointly promoting each others products and for referring clients to each other.

Note 10. Business combinations

Reckon Limited acquired the Smart Vault business effective 1 January 2016.

The initial accounting for the acquisition of this business has only been provisionally determined at reporting date.

	Half-year	
	30 June 2016 $'000	30 June 2015 $'000
Consideration:		
Cash paid	5,628	-
Cash acquired	(211)	-
Debt acquired	368	
Cash	5,785	-
Fair value of net assets of entity acquired:		
Receivables	430	-
Intellectual property - development and software	5,096	-
Fixed assets	421	-
Trade payables	(654)	-
Deferred revenue	(1,663)	-
	3,630	-
Goodwill	2,155	-
	5,785	-

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 2016 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, 9 August 2016

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

9 August 2016

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 2016, 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 Touche Tohmatsu
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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 2016, 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 12.

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 2016 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 2016 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

DELOITTE TOUCHE TOHMATSU

Alfred Nehama
Partner
Chartered Accountants
Sydney, 9 August 2016