



Reckon®

2015 | Annual Report

## Contents

4	Message to shareholders from the Chairman and Group CEO
6	Directors' Report
16	Remuneration Report
41	Corporate Governance Statement
50	Auditor's Independence Declaration
51	Independent Auditor's Report
53	Directors' Declaration
54	Consolidated Statement of Profit or Loss
55	Consolidated Statement of Profit or Loss and Other Comprehensive Income
56	Consolidated Statement of Financial Position
57	Consolidated Statement of Changes in Equity
59	Consolidated Statement of Cash Flows
60	Notes to the Financial Statements
105	Additional Information as at 14 March 2016

# Message from the Chairman and Group CEO

The bulk of the content of this Annual Report is inevitably backward looking. It documents the performance of the company for the financial period ending 31 December 2015, now several months ago depending on the time the Annual Report gets to everyone.

This is understandable as shareholders are interested in the history of performance to measure the success of their investment.

However, the board’s obligations also require some focus be given to the future. Recent trends in corporate accountability are showing an increasing demand from savvy investors for directors to focus on long-term shareholder wealth creation.

The rationale behind this demand for future looking statements is the fear that too much focus on the recent past causes directors and management to concentrate on short term profit based goals, sometimes premised on strategies with questionable sustainability, rather than creating long term value.

To some extent we feel that the market response to our recent announcement may be a consequence of a focus on the short term rather than understanding the long term plans of the company.

At the heart of our future strategy is a commitment to longer term sustainability in a dynamic and disruptive market. We have to balance protecting existing profitable businesses with the move, in very general terms, to the cloud, and with expansion of our territorial markets. If we don’t do this we run the risk of becoming a dinosaur.

So we are committed to three pillars of strategy:

- Investing in technology,
- Expanding products and territory, and
- Preserving and building on existing profitable businesses.

The first two pillars inevitably mean expenditure in development and sales and marketing, with consequent short term impacts on profitability.

Briefly looking back to 2015, the headline results were in fact encouraging if one considers the performance of the underlying businesses and provide a very solid base on which to build the future of the business.

Non IFRS**				
Group	2015	2014	Amount Change	% Change
Revenue	\$105.1 million	\$100.8 million	\$4.3 million	4.3%
EBITDA	\$39.2 million*	\$37.1 million	\$2.1 million	5.7%
NPAT	\$19.8 million*	\$18.9 million*	\$0.9 million	4.6%

\* Excluding new market expenditure, made up of amortisation of development costs of Reckon One; sales and marketing of Reckon One and sales and marketing of document management in the USA.

\*\* Refer to page 11 for a reconciliation with IFRS information.

The revenue growth was premised on organic growth ie: take up of more products across product suites, and volume growth especially in practice management and document management. This was to some extent negatively impacted by the effect of the transition from an upfront revenue model to a subscription revenue model in business and practice management products partly driven by moving customers from desktop to the cloud. This has been a perennial issue, but as we have previously stated, the impact of this change will reduce over time. It is pleasing to report that subscription revenues across all businesses are at levels that provide a foundation for long term sustainable returns: practice management is at 87%; business products are at 72% and document management products are at 73% of total revenue. A substantial part of revenue has now been converted to subscription and so the negative impact of this is expected to decline.

These are all encouraging signs and we believe should foster shareholder reward for the longer term.

In addition in 2015 we conducted targeted and strategic investment in certain areas, including: preparing for market development of Reckon One globally, and document management in the USA. These investments are expected to underpin growth in future years.

Consistent with this targeted approach effective 1 January 2016 we also completed the acquisition of SmartVault Inc, in Houston, Texas, USA. SmartVault is a secure cloud based online document management system with a portal for workflow and client collaboration. It is a “lighter” cloud based version of our Virtual Cabinet document management product. This acquisition presents opportunities not only in the USA, but also in Australia, New Zealand and the UK. SmartVault also assists us in taking document management into the cloud, and provides another platform for territorial expansion for our other products.

So all this activity should underline our future plans and it is appropriate that we spell it out very clearly for shareholders. This was already presented in great detail in our analyst roadshows in February 2016 and shareholders are encouraged to study the presentation slides in detail for insight into our plans. These are available on the ASX website as well as on the investor section of our website.

We thank all our shareholders, customers, partners and employees for your continued support.



Ian Ferrier  
Chairman



Clive Rabie  
Group CEO

# Directors’ Report

The Directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2015

**John Thame AAIBF FCPA**

Independent Non-Executive Chairman, retired on 30 June 2015

John Thame has a lifetime of experience in the retail financial services industry. He was managing director of Advance Bank Limited from 1986 until it merged with St George Bank Limited in January 1997 and held a variety of senior positions in his career with Advance. John was Chairman of St George Bank Limited from 2005 to 2008 and a member of the St George Bank Limited board until 1 July 2008. He is also Chairman of Abacus Property Trust Group Limited, where he has been a director since 2002. John was appointed to the board on 19 July 1999 when he was also appointed to the Audit & Risk Committee and Remuneration Committee.

**Ian Ferrier AM FCA**

Independent Non-Executive Director, Independent Non-Executive Chairman from 1 July 2015

Ian Ferrier is a Fellow of the Institute of Chartered Accountants in Australia. He has extensive experience in company corporate recovery and turn around practice. He is also a director of a number of private and public companies. Ian is also Chairman of Australian Vintage Limited having been a director since 1991 and Chairman of Goodman Group Limited since 2003 and a director of Energy One Limited. He has significant experience in property and development, tourism, manufacturing, retail, hospitality and hotels, infrastructure and aviation and service industries. Ian joined the board on 17 August 2004. Ian is Chairman of the Audit & Risk Committee and Remuneration Committee and served in that capacity to the end of 2015 to assist Chris Woodforde as he transitioned on to the board.

**Greg Wilkinson**

Founder, Deputy Non-Executive Chairman

Greg Wilkinson has over 30 years experience in the computer software industry. Greg entered the industry in the early 1980s in London where he managed Caxton Software, which became one of the UK’s leading software publishers. Greg co-founded Reckon in 1987 and was the Chief Executive Officer until February 2006. He was appointed to the position of Deputy Chairman in February 2006 and became a member of the board of the listed entity on 19 July 1999. He was appointed to the Audit & Risk Committee in February 2010 and Remuneration Committee in December 2011. He is also an investor and mentor to a number of cloud based start-up companies.

**Christopher Woodforde B Comm LLB**

Independent Non-Executive Director, appointed 1 July 2015.

Chris Woodforde has an extensive background as a legal practitioner in New South Wales, South Asia and the United Kingdom spanning over 30 years. Over that time he has held a wide range of senior legal and consulting positions. He occupied senior positions in Microsoft from 1994 to 2008 including as Director of Legal and Corporate Affairs in Australia and New Zealand. More recently he has acted as a consultant and senior contributor in legal and commercial capacities for a range of clients. He has been and remains a mentor to, and investor in, private initiatives in the information and communications technology market. Chris’ breadth of experience brings a unique mix of legal, commercial and management skills in South Asia, the United Kingdom, Australia and New Zealand well suited to information technology companies. Chris is Chairman of the Audit & Risk Committee and the Remuneration Committee from 1 January 2016.

**Clive Rabie**

Group Chief Executive Officer

Clive was Chief Operating Officer of Reckon from 2001 until February 2006 and in that time played a pivotal role in its turn-around. In February 2006 Clive was appointed to the position of Group Chief Executive Officer. He has extensive management and operational experience in the IT and retail sectors as both an owner and director of companies.

**Myron Zlotnick LLM, GCertAppFin  
General Counsel and Company Secretary**

Myron Zlotnick has over 20 years experience as a legal practitioner, general and corporate counsel, and as a director of companies in the information, communications and technology sector. He is a member of ASIC’s Registry and Licensing Business Advisory Committee.

**Marianne Kopeinig LLM, GDipApplCorpGov**

Legal Counsel and Assistant Company Secretary

Marianne has over 15 years experience as a private practitioner and corporate counsel for private and ASX listed companies and broad industry experience in commercial, risk management and compliance functions.

# Directors' Report (continued)

## Review of Operations and Statement of Principal Activities

### Summary

In 2015 Reckon Limited organised its activities into three operating groups: a Business Group, an Accountant Group, and an International Group.

The Business Group undertakes the development, sales and support of business accounting software for small to larger sized businesses and personal wealth management software branded as Reckon Accounts business, Reckon Accounts personal and Reckon One cloud products.

The Accountant Group develops, supplies and supports accounting practice management, tax compliance and allied software under the Reckon APS brand to larger professional accounting firms, and under the Reckon Elite brand to smaller professional accounting firms. The Accountant Group also supplies and supports company secretarial services such as company incorporations; domain registrations; SMSF documentation and ASIC compliance management; and other documentation for human resources needs, under the Reckon Docs brand.

The International Group develops, sells and supports document management and document portal products to a wide variety of clients under the Reckon Virtual Cabinet brand and supplies software solutions to legal firms and corporations for revenue management, expense management, print solutions, business process automation, business intelligence, document service automation, scan and document management under the Reckon nQueue Billback brand.

The three Groups are supported by shared services teams which include IT, development, finance, marketing, logistics, legal and human resources.

The company undertook a strategic review in late 2015.

The three key outcomes of the strategic review are investing in technology, expanding of products and territory, and preserving existing profitable businesses.

To line up with this strategy the company has implemented changes to the reporting and operational segmentation of the business commencing in 2016. Detail of these changes is set out below under the heading, New Segments from 2016 onwards.

### Business Group

The Business Group distributes and supports a range of programs under the Reckon Accounts brand. These programs are generally used by small to large businesses in Australia and New Zealand. Alongside desktop and hosted accounting software the range includes a payroll and point of sale solution, as well as personal finance software.

The fastest growing product in the Reckon Accounts suite is Reckon Accounts Hosted, a convenient secure online accounting software product that very closely mimics the Reckon Accounts business range desktop package.

Reckon Accounts products include: (1) Reckon BankData, a bank feed solution which allows connections with banks and other financial institutions to download bank transaction information directly into accounting software; and (2) Reckon GovConnect, an SBR-enabled solution for lodging reports to government agencies such as the ATO.

As part of meeting the demand for cloud based products Reckon released an early version of Reckon One in February 2014. In 2015 this product underwent significant development changes to the underlying architecture and user interface. Reckon One cloud based accounting software is based on a “designed by you” concept that allows users to tailor the solution to their needs by choosing modules their business will use. The current modules available are: Core (which includes payments and receipts, budgets and reporting); Invoices; BankData (automatic bank statement import into accounts and reconciliation); Projects (manage revenue, costs and forecasts by project);

Time & Expenses (timesheets and expenses); and an open API for third party applications. The Payroll module is scheduled for release in April 2016. The development roadmap also includes GovConnect (BAS lodgement) and Inventory.

Users can select which modules they need and only pay for those; and can switch modules on or off as required making Reckon One a very cost-effective solution for small businesses.

### Accountant Group

The Accountant Group develops, distributes and supports the Reckon APS suite of solutions for professional service firms in Australia, New Zealand and, via a reseller arrangement, in the United Kingdom. For professional accountants these solutions also include tax and accounts production. Reckon also delivers a wide range of complementary applications for practice management.

The Reckon APS product suite continues to be considered market leading for its sophistication and depth of offering to professional accounting firms. This is reflected in the market share that Reckon APS enjoys in Australia and New Zealand.

Reckon has committed several years of research and development to delivering unique integrated practice software to work off a single platform, offering all its solutions under the collective Reckon APS suite. The suite comprises several integrated modules for several business critical functions in professional firms: Practice Management (PM); Business Intelligence and Reporting (PIQ); Document Management (DM); Taxation (Tax); Client Accounting (XPA); Client Relationship Management (CRM); Resource Planning (RP); Superannuation (DS); Corporate Secretarial (CR); Workpaper Management (WM); SyncDirect and others.

Reckon has also made all of the above modules available in a hosted version called APS Private Cloud.

SyncDirect is a cloud based system that allows accountants to upload financial transaction data from virtually any SME accounting product and automatically enter it into their practice management system for accounts and tax return preparation purposes. It is an extremely beneficial tool for professional accounting firms as it creates a “single ledger” experience for them without being required to use the same software as their clients.

The Reckon Elite product suite includes tax return preparation tools, practice management tools and related solutions mostly used by accountants and tax agents. Reckon Elite is predominantly used in small to medium sized accounting firms compared to Reckon APS which is used by larger firms.

Reckon Docs corporate services business comprises technology for the registration and compliance management of companies and other business structures through an easy to use web based ordering system. This business provides clients with an online company registration service available 24/7; documentation and services for the establishment of a range of entities, especially trusts for self-managed superannuation funds; constitution updates; and other documentation for human resources needs.

The Reckon Docs Searches business provides comprehensive accredited business name and ASIC information electronically combined with a highly personalised client relationship. A full range of sophisticated information services to assist customers with the provision of financial, corporate and statutory information is also offered.

Reckon Docs also offer a desktop utility called Reckon Docs Desktop (RDD) that is a simple and convenient desktop application for company registration, searches, and ASIC compliance management. This product is also integrated into the Practice Management suite of APS, known as CR.

# Directors’ Report (continued)

## International Group

The International Group provides software and support services for accountants, lawyers and businesses for document management, document portal, scan, cost recovery and revenue management.

The International Group currently operates under the Virtual Cabinet and nQueue brands in the UK and the USA respectively, and has reseller arrangements in other parts of the world. These products are also sold in Australia.

The Virtual Cabinet solution enables companies to control all documents in a secure document management system. Virtual Cabinet document management fully integrates with back office systems and has the ability to link all forms of electronic files back to client records. Linked with the document portal it also provides a secure and audit trailed method to send documents to selected recipients, and provides an efficient method for professionals to collaborate with their clients.

The final 30% of Linden House Software Limited (UK), where the Virtual Cabinet product is developed, was acquired effective 1 July 2015 for \$9 million. The current shareholding in this business is now 100% and the company was renamed Reckon Software Limited.

Effective on 1 January 2016 Reckon completed the acquisition of SmartVault Corp in Houston, Texas. SmartVault is a secure cloud based online document management system with a portal for workflow and client collaboration. It is a “lighter” cloud based version of the document management processes similar to what Virtual Cabinet provides on the desktop at the enterprise level.

So the acquisition of SmartVault presents an opportunity to accelerate the move of document management products to the cloud. In turn, Virtual Cabinet expertise will add to the SmartVault model and their ability to take an enterprise product to the USA market.

The Reckon cost recovery, expense management, and scan solutions assists law firms and commercial and government clients by enhancing the automation and processing of any operational and administrative expenses, including print, copy, scan, telephone, online searches, emails, court fees, car services, credit card charges, courier costs and more. These solutions can be embedded directly into multi-function devices or reside on tablet computers or terminals to provide clients with the knowledge required to run their businesses more profitably.

The development of a scan solution marked a shift from standalone cost recovery, expense management software towards a closer integration with document management and practice management. This was one of the drivers towards the changes in operational segmentation.

## Development and Software that Connects

Reckon’s various product roadmaps and development efforts are co-ordinated to meet the overall strategic goal of delivering integrated solutions, on the desktop, in a hosted environment, and in the cloud, to businesses and accounting and legal professionals. The development strategy is aimed at improving collaboration between businesses, accountants, banks, government agencies and other stakeholders.

This development also takes account of demand for remote and mobile access to all solutions and applications.

## New Segments from 2016 onwards

As mentioned above as a consequence of the strategic review of late 2015 the reporting and operational segments for the company have changed.

Previous Reporting Segments			New Reporting Segments		
Accountant Group	International Group	Business Group	Practice Management	Document Management	Business
APS	nQueue	Reckon Accounts	APS	Virtual Cabinet	Reckon One
Elite	Virtual Cabinet	Reckon Accounts Hosted	Elite	SmartVault (NEW)	Reckon Accounts
Docs		Reckon One	Docs		Reckon Accounts Hosted
			nQueue (MOVED)		

## Results of Operations

### Results Headlines underlying business (Non-IFRS)

- Revenue was up 4.3% to \$105.1 million from \$100.8 million.
- EBITDA was up 5.7% to \$ 39.2 million from \$37.1 million.
- NPAT was up 4.6% to \$19.8 million from \$18.9 million.

The above results for EBITDA and NPAT exclude the impact from costs associated with the investment in new markets.

	2015 \$m	2014 \$m
IFRS EBITDA	36.6	37.1
New market expenditure	2.6	-
EBITDA - Underlying business	39.2	37.1

	2015 \$m	2014 \$m
IFRS NPAT	15.1	17.6
After tax effect of new market expenditure*	4.7	1.3
NPAT - Underlying business	19.8	18.9

\* At effective tax rate.



# Directors’ Report (continued)

The company declared a total dividend of 7.25 cents per share for the 2015 financial year (final dividend of 3 cents per share and an interim dividend of 4.25 cents per share) down 19% from 9 cents per share. This reduction in dividend was largely a consequence of the company’s shift in strategy to invest in technology and new markets. The company had a dividend reinvestment plan in place from 1999 when it first listed but took steps to update this policy and invited shareholders to participate in a dividend reinvestment plan on 9 March 2016.

## Revenue Drivers

Generally group revenue was impacted:

- Positively by growth in subscription revenue;
- Positively by volume growth and price increases;
- Negatively by the transition of Advantage/Upgrade products in the Business Group moving to subscription;
- Negatively by the transition of Accountant Group revenue moving from an upfront to a subscription model.

The company continues to pursue the strategy to shift the revenue model for sales from upfront once off purchases to a subscription revenue model. This has been something the company has been working on for several years and becomes more significant as we move customers from the desktop to the cloud where products are sold on a subscription basis only. A substantial part of revenue has now been converted to subscription so the negative impact of this is expected to decline.

Subscription revenue in the Business Group for 2015 was \$22.5 million, up 38.4% on 2014 from \$16.3 million. It is encouraging that subscription revenue in the Business Group now comprises 72% of total Business Group revenue compared to 50% in 2014. So while the gain in subscription revenue was offset by an overall decline of revenue in the Business Group of 3.8% because of the shift from upfront pricing to subscription pricing, the revenue uplift of the shift to subscription will be felt in the future.

In the cloud market, Reckon One cloud based accounting software is showing good growth. While the base is low, the month on month growth for the second half of 2015 was 9%. Reckon One cloud based accounting software is expected to be launched in the United Kingdom by the end of June 2016.

Revenue for the Accountant Group was up 3% to \$47.4 million from \$46.2 million in 2014. The key drivers here were winning new customers from our competitors and the availability of new releases and upgrades. Overall the growth in seats in the Accountant Group was up 17% on last year.

As with the Business Group, the strategy to move from an upfront once off software sales model to a subscription based model is bearing success and is largely complete. Given the nature of the products, it is expected that there will always be a residue of upfront and service revenue in the Accountant Group. 87% of practice management revenue is now subscription based.

The Reckon Docs content business was a solid contributor to the Accountant Group with revenue up 5.4% to \$21.6 million from \$20.5 million. This is attributable to volume growth and some price increases.

Revenue for the International Group was up 26% to \$22.3 million from \$17.7 million in 2014. The key drivers here were strong new order growth for nQueue and Virtual Cabinet growth in seats of 15% on last year.

## EBITDA

The EBITDA delivered by the underlying businesses in the group was up 5.7% to \$39.2 million from \$37.1 million in 2014.

If account is had of the investment committed to new market expenditure to meet the broad strategic goals of:

- Investing in technology,
- Expanding products and territory, and
- Preserving existing profitable businesses;

then EBITDA for the group is \$36.6 million, down 1.3% on 2014. But the company is committed to the strategy and to bear short term consequences for longer term gain.

In the Business Group underlying business, EBITDA was fractionally down 0.2% from \$19.1 million compared to \$19.2 million in 2014.

In the Accountant Group underlying business, EBITDA increased slightly from \$16.5 million to \$16.7 million.

The modest EBITDA performance in the Business and Accountant Group is mainly attributable to the move to a subscription revenue model.

In the International Group underlying business, EBITDA increased 34% from \$6.1 million in 2014 to \$8.2 million in 2015.

## NPAT

As with the EBITDA headline result, NPAT growth was negatively impacted by the new market expenditure, adjusted for new market expenditure, NPAT for 2015 is 4.6% up on 2014.

## Cash Flow

The company’s operating cash flow increased by 7% from \$31.3 million to \$33.5 million predominantly as a result of the move to a subscription revenue model where a higher proportion of customers pay on a monthly basis.

## EPS

As a result of the decline in NPAT, premised on the investment in new markets in 2015, basic EPS consequently declined 7.6% from 14.2 cents per share to 13.1 cents per share.

## Dividends

On 9 March 2016, the board declared a final unfranked dividend of 3 cents per share payable to shareholders recorded on the company’s register as at the record date of 17 March 2016.

For the final dividend Reckon also implemented a dividend re-investment plan inviting shareholders to participate at a price representing a discount of 12.5% to the period of 7 trading days commencing on the date 2 trading days after the record date.

On 11 August 2015, the board declared an interim dividend of 4.25 cents per share (60% franked) payable to shareholders recorded on the company’s register at record date of 26 August 2015.

# Significant Changes in State of Affairs

There were no significant changes in the company’s state of affairs during the year.

# Directors' Report (continued)

## Future Developments, Business Strategies and Prospects for Future Financial Years

In late 2015 the company undertook a strategic review. This was motivated to some extent by a perception that the true value of the company was not being recognised in the market. Previous efforts to convey to the market that despite the challenges that the company had faced in recent times, the company still maintained profitability were apparently not well communicated or not well received by the market. At least as evidenced in the multiples at which Reckon shares were trading relative to its peers.

These challenges included parting ways with Intuit Inc, in turn facing Intuit Inc as a competitor, fighting in a fiercely competitive market, undertaking branding changes, undertaking independent development, and moving products to the cloud; establishing new products and territories; but at the same time maintaining the profitability of existing businesses.

The strategic review had two goals. In the first place to understand the future value of the company and secondly how better to communicate that to the market.

The strategic review was an in-depth and lengthy process that culminated in three key outcomes that needed to be conveyed to the market:

- The company is committed to investing in technology, in terms of investment in development generally and moving products to the cloud;
- The company is committed to expansion, in terms of moving into new territories and developing or acquiring new products; and
- The company is committed to maintaining the profitability of existing businesses.

The consequence of this strategy is short term investment that will impact profitability. But the long term gain of achieving a suite of products that are at the forefront of the market, that are relevant and contemporary, and developed in sustainable and scalable way is worth the investment.

To some extent there is nothing new in this as our report for the 2015 financial year shows. Underlying businesses performed well, but the company invested in new business initiatives with some short term profit and loss impact.

The strategic review resulted in the company changing the reporting segments to better reflect the opportunities available to the group.

More specifically the strategic review also identified the following goals that the company will pursue:

- To continue investment in scaling proven international businesses (especially nQueue and Virtual Cabinet);
- To consolidate Reckon APS' market leadership by continuing to provide high-value modules and functionality;
- Based on the recent acquisition of SmartVault, a leading online Document Management software product, to strengthen product offerings in the USA market and gain a point of access to valuable accountant market;
- To continue to roll-out' Reckon One globally;
- To accelerate investment in targeted development priorities to be undertaken over 2016 and 2017, especially:
  - Reckon One,
  - The integration of SmartVault / Virtual Cabinet onto one platform, and
  - "Cloudification" of Reckon APS modules.

Success in pursuing strategic ambitions is subject to certain risks. In general terms the businesses will always be subjected to domestic macro-economic pressures to the extent that these may or may not impact the confidence of small to medium sized businesses. The markets in which we operate are vigorously competitive and subject to disruption and price pressure. The competitive landscape does show the emergence of disruptive operators in the

cloud market, but the scale of yet to be acquired customers in all groups is large. Ambitions to expand overseas and product development carry execution risks. And, operationally, any business of this nature is subject to service interruption, infrastructure failure or data breaches.

The main risk arising from the company and Group's financial instruments are currency risk, credit risk, equity price risk, liquidity risk and cash flow interest rate risk. See note 31 to the Financial Statements for further detail of these risks.

Reckon undertook a review of its information security practices using ISO27001 Information Security Management System as a guide to provide an assurance framework for the company's information security practices. At the end of 2015 this review was completed and the next step is to consider what new processes or systems to implement. This is a lengthy and ongoing process.

## Matters Since the End of the Financial Year

Effective on 1 January 2016 Reckon completed the acquisition of SmartVault Corp in Houston, Texas. SmartVault is a secure cloud based online document management system with a portal for workflow and client collaboration.

No matter or circumstance has arisen since the end of the year that has significantly affected, or may significantly affect the company's operations in future financial years; or the results of those operations in future financial years; or the company's state of affairs in future financial years.



# Directors’ Report (continued)

## Remuneration Report – Audited

### 1. Introduction

The Remuneration Report sets out, in accordance with section 300A of the Corporations Act: (i) the company’s governance relating to remuneration, (ii) the policy for determining the nature and amount or value of remuneration of key management personnel; (iii) the various components or framework of that remuneration; (iv) the prescribed details relating to the amount or value paid to key management personnel, as well as a description of any performance conditions; (v) the relationship between the policy and the performance of the company.

Key management personnel are the non-executive directors, the executive directors and employees who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity. As a consequence of internal management changes, Daniel Rabie as Chief Operating Officer from 27 July 2015 is key management personnel and Richard Hellers is no longer key management personnel.

### 2. Governance

Authority for remuneration matters rests with the Remuneration Committee which reports to the board and makes recommendations regarding remuneration to the board which has ultimate responsibility for signing off on remuneration practices and outcomes.

The Remuneration Committee is comprised of three non-executive directors, two of whom are independent.

In 2015 the chairman of the Remuneration Committee was Ian Ferrier (independent) and the other members were John Thame (independent) until 30 June 2015, Greg Wilkinson (non-independent) and Chris Woodforde (independent) from 1 July 2015. Mr Ferrier, although also chairman of the board, remained Chairman of the Remuneration Committee to the end of 2015 to allow Mr Woodforde’s transition into the company. Mr Woodforde assumed the role as Chairman of the Remuneration Committee from 1 January 2016.

Details of the meetings of the Remuneration Committee are set out on page 39.

The Remuneration Committee operated substantially in accordance with the aims and aspirations of Principle 8 of the ASX Corporate Governance Principles and Recommendations (“ASX Principles and Recommendations”).

The charter of the Remuneration Committee is available on the company’s website at <http://www.reckon.com.au/aboutus/corporategovernance.aspx>.

At the Annual General Meeting (AGM) for the financial year ending 31 December 2013, held on 21 May 2014, shareholders representing approximately 18% of the total shares on issue at the time, but 33% of the votes actually cast on the resolution, voted against a non-binding resolution calling for approval of the remuneration report.

As a consequence of this first strike against the Remuneration Report and in any case to aim for better overall disclosure, the company went to great lengths to remedy the supposed defects in its reporting in the 2014 Remuneration Report.

Then at the Annual General Meeting (AGM) for the financial year ending 31 December 2014, held on 20 May 2015, shareholders representing approximately 21% of the total shares on issue at the time, but 37% of the votes actually cast on the resolution, again voted against a non-binding resolution calling for approval of the remuneration report.

This amounted to a second strike and accordingly a resolution - calling for the company to convene another meeting, a spill meeting, to consider whether directors (excluding the managing director) would cease to hold office immediately before the next meeting and elections for directors would be held - was put to the General Meeting.

The outcome of that spill resolution was an overwhelming majority of 97% of votes cast against spilling the board.

The company has since considered the comments made in relation to the 2014 Remuneration Report, most notably the concern that the board exercised a discretion to allow long term incentives to vest notwithstanding that the performance targets were not met. The board endeavoured in the 2014 Remuneration to explain the rationale behind the exercise of the discretion and believes that those reasons remain valid. However, for 2015, the board declined to

exercise any discretion and the vesting of long term incentives – and all other for that matter - as set out below occurred only to the extent that performance targets were met.

### 3. Policy

Setting policy for the various components of remuneration is complex. It involves managing the sometimes competing expectations and opinions of various stakeholders including shareholders with the expectations of key management personnel. Thus policy is set with consideration of the need to balance shareholder expectation (performance) with the need to attract, motivate and retain key management personnel and take account of the unique characteristics of the company and the nature of its activities during a reporting period.

Specifically, the policy is to pay the relevant officers and employees remuneration cognizant of relevant market comparisons but suited to the unique features and nuances of the company, the competitive landscape, the scale of the business, the responsibilities of the individual directors and employees, the individual talents, capabilities and experience of relevant executives, internal relativities as well as quantitative and qualitative performance.

All remuneration is reviewed annually. Generally annual increases will be assessed on a case by case basis according to the above criteria to judge whether they are justified and by how much. Consideration is given to consumer price index indicators but these are not necessarily conclusive and the board may allow increases above or below any index based upon the performance of the company and the performance of the individual key management personnel involved.

Each year the board, through the Remuneration Committee, will consider for approval the levels of remuneration for each component of remuneration as set in the annual budget, taking into account the relevant performance compared to budget, historical results and the total cost to the company for key management personnel.

While individual remuneration increases have varied, the company has managed to decrease the total cost to the company over the past few years.

As the table below illustrates, there has been an average decline of almost 4% per annum in total key management personnel remuneration over the last 5 years.

Year	Total KMP Remuneration	Change	Comments
2011	\$4,349,291		
2012	\$4,149,895	Down 4.58%	KMP headcount remained the same.
2013	\$3,741,242	Down 10%	KMP headcount remained the same.
2014	\$3,981,578	Up 6%	KMP headcount reduced from 6 to 5, but responsibilities of ex-CEO of Business Group allocated to existing executives.
2015	\$3,685,994	Down 7%	Attributable to resignation of MD of the Business Group, but responsibilities taken up by remaining executives and new COO; restructuring of KMPs, and failure to meet 100% of LTI targets.

# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

### 4. Remuneration Components or Framework

For 2016, remuneration for key management personnel who are executive directors or Group executives comprises a fixed element, a short-term incentive element and a yet to be implemented long-term incentive element.

For 2016, remuneration for non-executive directors comprises a fixed element only. No director’s fees are paid to executive directors.

#### 4.1 Fixed Component

The fixed component comprises cash payments.

The amounts offered are determined in accordance with the policy described above. Specifically, the features and nuances of the company, the individual talents, capabilities and experience of relevant executives, and the need to attract and retain talent are considered important factors in assessing the fixed component to be paid to executives each year.

The Remuneration Committee does not set fixed remuneration against other comparable market capitalisation companies. In its opinion market capitalisation by itself does not present a reliable yardstick.

Fixed remuneration levels can be seen in the context of the performance of the company in the table below. The Remuneration Committee believes that in the context of the overall performance of the company the levels of total fixed remuneration levels are reasonable.

	Operating Revenue \$m	% up or down	EBITDA \$m	% up or down	Total fixed remuneration	% up or down
2007	\$55.0	23%	\$16.5	26%	\$2,365,304	6%
2008	\$60.0	9%	\$19.0	15%	\$2,565,493	8%
2009	\$85.3	42%	\$24.8	31%	\$3,016,981	18%
2010	\$90.1	6%	\$30.1	22%	\$3,223,268	7%
2011	\$90.2	0%	\$31.3	4%	\$2,791,467	-13%
2012	\$96.6	7%	\$34.0	9%	\$2,887,273	3%
2013	\$98.1	2%	\$35.3	4%	\$2,590,547	-10%
2014	\$100.8	3%	\$37.1	10%*	\$2,734,517	6%
2015	\$105.1	4%	\$36.6 \$39.2**	-1% +6%	\$2,538,324	-7%

\*Excluding the proceeds from the sale of the investment in Connect2Field in 2013 of \$1.4 million.

\*\* Adjusted for new market expenditure. For purposes of remuneration amounts were paid on the lower unadjusted

EBITDA.

While the Remuneration Committee will pay attention to market comparisons in setting fixed remuneration levels, it will always remain mindful of performance (long and short term) and the unique characteristics of the company.

#### 4.2 Short-Term Incentive Component (STI)

The short-term component comprises a cash payment only.

This incentive drives a contribution to the short term performance of the company by being tied to annual budgets.

An additional performance hurdle that defers full payment of the short-term incentive also acts as a retention incentive.

Payment of the short term incentive is conditional upon satisfaction of performance conditions with a one year performance period but with a portion (approximately one third) of the payment being made upon the further condition that the executive remains in employment for a further one year period after the performance period.

The amounts offered are determined in accordance with the policy described above under the heading, “Policy”.

Each annual budget fixes a potential amount in which the relevant employees can share if the performance conditions are met. There are three weighted elements to the performance conditions, viz: a revenue target, an earnings before interest, tax, depreciation and amortisation (EBITDA) target, and an earnings per share (EPS) target, measured against the budgeted performance of the company.

The EBITDA target was introduced to replace NPAT in 2010 to remove a perceived duplication of earnings based targets because EPS is also a target.

The board determines the allocation of the potential amount between individual key management personnel or employees as well as the weightings that comprise the performance conditions for short term incentive offers made.

The Remuneration Committee has the power to withdraw offers that have not vested or to clawback short-term incentives paid in the case of serious misconduct or material misstatement in the financial statements respectively. The Remuneration Committee also has a discretion not to allow incentives to vest.

# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

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STI Table for 2015

Performance Indicator	Target	Actual	Weight of bonus	Potential STI amount at 100%	Amount earned on sliding scale 90% – 110%*	
					% of target	\$
Revenue	\$107.3m	\$105.1m	40%	\$273,078	98%	\$268,521
EBITDA	\$38.9m	\$36.6m	40%	\$273,078	94%	\$259,601
		\$39.2m**				
EPS	13.8 cps	13.1 cps	20%	\$136,539	95%	\$130,880
		17.3 cps**				
Total				\$682,695	\$659,002	

\* The bonus is paid on a sliding scale. Below 90% no bonus is paid. Between 90% and 110% a pro rata increase is paid, capped at 110%.

\*\* Adjusted for new market expenditure. For purposes of remuneration amounts were paid on the lower unadjusted EBITDA.

STI Table for 2014

Performance Indicator	Target	Actual	Weight of bonus	Potential STI amount at 100%	Amount earned on sliding scale 90% – 110%*	
					% of target	\$
Revenue	\$104.5m	\$100.8m	40%	\$273,856	96%	\$263,978
EBITDA	\$37.4m	\$37.1m	40%	\$273,856	99%	\$271,907
EPS	12.1 cps	14.2 cps	20%	\$136,928	110%	\$150,621
Total				\$684,640	\$686,506**	

\* The bonus is paid on a sliding scale. Below 90% no bonus is paid. Between 90% and 110% a pro rata increase is paid, capped at 110%.

\*\* This does not reconcile with the total on page 32 as some of the key management personnel had other bonus structures agreed and the deferred component is accounted for over a two year period.

# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

### Performance

As with fixed remuneration, the Remuneration Committee believes that in the context of the overall historical performance of the company the quantum of the total short term incentives paid is reasonable. The following table sets out (i) the historical performance targets, (ii) the percentage increase of the target over the prior year target, (iii) the actual performance achieved, (iv) the percentage increase of the actual performance over the prior year performance target, (v) the increase of the actual performance over the prior year actual performance, (vi) the total STI paid in the year together with the increase of total STI compared to the prior year and the percentage of the potential STI amount paid. The Remuneration Committee believes that this table also indicates that the performance targets set were adequately demanding. The 2015 target for operating revenue was mainly set in the context of declining upfront revenue as the revenue model for the business moved to subscription based revenue.

	Operating Revenue Target	Target increase or decrease on prior year %	Operating revenue achieved	% of revenue achieved over target set	% increase of revenue achieved over prior year	NPAT target	Target increase or decrease on prior year %	NPAT achieved
2006	\$45.2m	-	\$45.0m	100%	na	\$7.4m	na	\$8.2m
2007	\$51.1m	13%	\$55.0m	108%	23%	\$8.7m	18%	\$9.9m
2008	\$61.4m	20%	\$60.0m	98%	8%	\$10.6m	21%	\$11.3m
2009	\$89.9m	47%	\$85.3m	95%	42%	\$12.5m	18%	\$13.7m
						EBITDA Target*		EBITDA Achieved*
2010	\$92.3m	3%	\$90.1m	98%	6%	\$29.0m	–	\$30.1m
2011	\$96.8m	5%	\$90.2m	93%	0%	\$32.5m	12%	\$33.1m
2012	\$98.3m	2%	\$96.6m	98%	7%	\$36.0m	11%	\$34.0m
2013	\$104.9m	7%	\$98.1m	94%	2%	\$36.1m	0%	\$35.3m
2014	\$104.5m	0%	\$100.8m	96%	3%	\$37.4m	4%	\$37.1m

2015      \$107.3m      3%      \$105.1m      98%      4%      \$38.9m      4%      \$39.2m\*\*

\* The EBITDA target was introduced to replace NPAT in 2010 to remove a perceived duplication of earnings based targets, because EPS is also a target.  
\*\* Adjusted for the after tax effect of new market expenditure. For purposes of remuneration, amounts were paid on the lower unadjusted EBITDA.

% of NPAT achieved over target set	% increase of NPAT achieved over prior year	EPS Target cps	Target increase or decrease on prior year %	EPS achieved cps	% of EPS achieved over set target	% increase of EPS achieved over prior year	Total STI	% increase or decrease of total STI on prior year	% of STI released (average across KPI's) capped at 110%
110%	na	5.4	na	6.2	114%	na	\$566,253	na	na
115%	21%	6.6	23%	7.5	114%	21%	\$575,655	2%	109%
107%	14%	7.9	20%	8.5	108%	13%	\$594,767	3%	103%
110%	21%	9.4	18%	10.3	110%	21%	\$694,134	17%	104%
104%	–	10.7	14%	11.8	110%	14%	\$699,964	1%	103%
102%	10%	12.6	18%	13.3	106%	14%	\$721,444	3%	99%
94%	3%	13.9	10%	13.4	96%	0%	\$740,371	3%	96%
98%	4%	14.3***	3%	13.9	97%	4%	\$640,381	-14%	96%
99%	4%	12.1	-15%	14.2	110%	2%	\$684,428	7%	99%
94%	0%	13.8	14%	13.1 17.3**	95% 125%**	-8% 22%**	\$664,640	-7%	96%

\*\*\* Includes the proceeds from the sale of the investment in Connect2Field in 2013 of \$1.4 million.

# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

The total above does not reconcile with the total short term incentive on the 2015 payments table as some of the key management personnel have other bonus structures agreed other than the above performance targets, and the deferred component is accounted for over the two year period.

The table below sets out the comparison between internal targets set by the company compared to consensus estimates published by market analysts and compared to actual performance for the relevant performance measures. This gives some indication of a correlation between internal targets and external objective targets. It should be noted that the analyst reports relied upon are amended and updated sometimes on several occasions each year and the numbers reported here are based on the information available at the time. The board is of the opinion that this nonetheless gives some indication of the trend of a correlation between internal targets and market expectations.

	Operating Revenue Target	Consensus Average	Operating Revenue Achieved	NPAT Target	Consensus Average	NPAT Achieved
2006	\$45.2m	\$46.5m	\$45.0m	\$7.4m	\$7.9m	\$8.2m
2007	\$51.1m	\$53.8m	\$55.0m	\$8.7m	\$9.9m	\$9.9m
2008	\$61.4m	\$63.0m	\$60.0m	\$10.6m	\$11.2m	\$11.3m
2009	\$89.9m	\$85.7m	\$85.3m	\$12.5m	\$13.3m	\$13.7m
				EBITDA Target*		EBITDA Achieved*
2010	\$92.3m	\$93.1m	\$90.1m	\$29.0m	\$30.7m	\$30.1m
2011	\$96.8m	\$94.6m	\$90.2m	\$32.5m	\$33.7m	\$33.1m
2012	\$98.3m	\$96.3m	\$96.6m	\$36.0m	\$35.3m	\$34.0m
2013	\$104.9m	\$100.1m	\$98.1m	\$36.1m	\$36.0m	\$35.3m
2014	\$104.5m	\$102.1m	\$100.8m	\$37.4m	\$38.5m	\$37.1m
2015	\$107.3m	\$105.9m	\$105.1m	\$38.9m	\$39.6m	\$36.6m \$39.2m**

\* The EBITDA target was introduced to replace NPAT in 2010 to remove a perceived duplication of earnings based targets because EPS is also a target.

\*\* Adjusted for new market expenditure. For purposes of remuneration amounts were paid on the lower unadjusted EBITDA.

### 4.3 Long-term Component (LTI)

#### Background

The long-term incentive plan was approved by the board and approved by shareholders at a Special General Meeting on 20 December 2005.

The long term incentive comprises two possible rewards: the grant of equity in the form of performance shares; or cash payments based upon share price appreciation rights. The latter being included in the original design of the plans to accommodate the then CEO and COO whose substantial shareholding in the company at the time meant that they could not take advantage of tax deferral provisions and so instead could be offered cash payments taxed at vesting.

The long-term incentive is aimed at aligning remuneration with the longer term performance of the company and retaining the long term services of the key management personnel.

The amounts offered are determined in accordance with the policy described above under the heading, “Policy”.

The board has the power to approve the making of offers to applicable employees upon the recommendation of the CEO to the Remuneration Committee.

Performance shares (in respect of the company’s ordinary shares) awarded and/or share price appreciation rights do not vest before a performance period of three years after their grant date.

The board has the power to exercise discretion to decline to allow an award to vest, for example for “bad leaver” reasons.

Vesting is conditional upon the company achieving defined performance criteria. Under the long term incentive plan in place for 2015 for the performance period 2013– 2015, the performance criteria were based upon a total shareholder return (TSR).

A TSR is the return to shareholders over a prescribed period, based upon the growth in the company’s share price plus dividends or returns of capital for that period expressed as a percentage of the investment. The company’s TSR target is based upon the company achieving a median or higher ranking against the TSR position of individual companies within a ‘comparator group’ of companies (i.e. a group of comparable ASX listed companies pre-selected by the board) over the same period. If the relative TSR ranking was equal to the median, then 50% of the long-term incentive offered would vest. The balance of the offer would vest proportionally on a sliding scale between the median and the third quartile with 100% vesting (capped) if the company’s ranking equalled or exceeded the third quartile.

#### Vesting Scale

Company Performance	% Of Offered Shares Allocated
Up to, but not including the 50th percentile:	0%
At the 50th percentile:	50%

75th percentile and above on a sliding scale up to: 100%

# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

### Performance

Grant Date	Performance Period	TSR	Start Price (cents)*	End Price (cents)*
1 January 2005	2005 – 2007	85.7%	83	135
1 January 2006	2006 – 2008	53.6%	76	102
1 January 2007	2007 – 2009	92.0%	103	172
1 January 2008	2008 – 2010	101.2%	135	238
1 January 2009	2009 – 2011	159.1%	102	234
1 January 2010	2010 – 2012	54.4%	172	238
1 January 2011	2011 – 2013	0.7%	238	216
1 January 2012	2012 – 2014	-13.3%	234	180
1 January 2013	2013 - 2015	12.2%	238	236

\*Based on weighted average price using the closing prices for the month preceding the date of calculation allowing for the number of shares traded each day.

Based on relative performance for the period 2013 - 2015 the percentage of shares or rights vested is 58%. Based on comments at the Annual General meeting in 2015, the Remuneration Committee only allowed incentives to vest to the extent that performance targets were met for the performance period 2013 - 2015.

For the performance period 2012 - 2014, as set out in the Remuneration Report last year, instead of allowing 100% to vest, the board decided:

- To allow only 50% of the entitlements to vest;
- A further 50% of the entitlements would only vest if certain further performance targets were met by the end of June 2015:
  1. The completion of the development roadmap for 2012 – 2014 of Reckon One “Evolution”, which includes:
    - Develop and release the Reckon One next generation version;
    - Develop and release the new Reckon One client provisioning system;
    - Develop and release the new Reckon CRM system; and
  2. Complete the re-build of the Group website infrastructure.

These targets were met and accordingly effective on 1 July 2015 the remaining 50% of the shares and rights for the period 2012 – 2014 vested.

The company has generally provided excellent long term share price growth:

	Share price at the start and end of year (cents)*	
	January	December
2002	14	19
2003	19	68
2004	68	85
2005	85	76
2006	76	102
2007	102	139
2008	139	105
2009	105	184
2010	184	234
2011	234	234
2012	234	236
2013	236	217
2014	217	181
2015	181	240

\* Based on close of day price.



# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

Shares to vest for performance period 2013–2015: 87,518 or 0.07% of the total shares on issue. The Remuneration Committee is thus of the opinion that the scale of the incentives is at a reasonable level

	Number of performance shares offered*	Number of shares on issue at start of year	%	Amount paid for share appreciation rights
2005	78,815	138,864,948	0.06%	\$18,750
2006	85,437	132,236,740	0.06%	\$43,750
2007	290,762	132,427,978	0.23%	\$284,833
2008	252,477	132,749,825	0.19%	\$34,088
2009	375,475	132,937,807	0.28%	\$661,843
2010	214,190	133,317,555	0.16%	\$980,629
2011	156,704	133,384,060	0.12%	\$338,360
2012	150,440	132,839,672	0.11%	\$105,560
2013	91,740**	129,488,015	0.07%	\$164,329
2014	101,696	126,913,066	0.08%	\$157,263
2015	110,912	112,084,762	0.09%	\$12,747***

\* The number of shares is at the date the offer was made to employees. Some of the offers have since lapsed. This is less than one quarter of the estimated average number of shares/options/rights on offer by an updated comparator group of peers. The average of shares/rights on offer by Reckon is a negligible percentage of total shares issued.

\*\* Only 58% vested.

\*\*\* This is the actual amount vested, represented by 58% of the share price appreciation multiplied by the number of rights granted.

The Remuneration Committee believes that the quantum and payment of the long term incentives are again reasonable. Refer to the table on page 22 for an overview of performance history.

### Change to LTI KPI

As previously reported the Remuneration Committee noted that a change was needed to be made to the performance targets for the company as it moved its business to the cloud. To some extent the current strategy of the company mimics that of a start-up entity. The market’s apparent negative response in early 2015 to announcements about the strategy and investment in development and marketing confirm this.

For the performance period 2015 – 2017 the Remuneration Committee has retained a TSR type incentive but has chosen a different benchmark against which to judge the company’s performance.

As with the old KPI, TSR is the return to shareholders over a prescribed period, based upon the growth in the company’s share price plus dividends or returns of capital for that period expressed as a percentage of the investment.

But now the company’s benchmark against which the company’s performance is measured is based upon the company achieving a ranking against the total return of the S&P / ASX 300 over the same period.

The incentives vest based on a sliding scale between minus 20% and plus 20% of the total return of the S&P / ASX 300. The amount of shares to be awarded is calculated on a straight line basis from 80% to 130%. Thus, for example if the company’s TSR is 20% lower than that of the S&P / ASX 300 then only 80% of the shares vest. If the company’s TSR is 20% better than the S&P / ASX 300 then 130% of the shares vest.

These targets are in place for the performance period 2015 – 2017 only. The Remuneration Committee is presently considering alternatives for 2016 onwards to find an appropriate share performance or share appreciation plan to fit the current status of the company and appropriately incentivise employees.

### Share appreciation plan

The share appreciation right plan represents an alternative remuneration component (to offering performance shares) under which the board can invite relevant employees to apply for a right to receive a cash payment from the company equal to the amount (if any) by which the market price of the company’s shares at the date of exercise of the right exceeds the market price of the company’s shares at the date of grant of the right. The amount ultimately paid to the employee is calculated based on the difference between the company share price at vesting and the share price at date of issue spread over the three year performance period, multiplied by the number of rights granted.

As a threshold, the same performance target set for vesting of performance shares for 2013 – 2015 must be met. Accordingly the reward for this performance period was paid at 58% of the potential amount offered.

For 2015 – 2017, the same threshold as that implemented for the performance shares offered will apply.

As for the period 2012- 2014 as articulated above only 50% of share appreciation rights vested at the end of 2014. The balance vested effective 1 July 2015 based on achievement of the additional performance targets mentioned above on page 26.

### 4.4 Long term retention incentive

On 24 May 2011 the Remuneration Committee approved and recommended to the board an extension to the long term incentive plan by adding a long term retention incentive. The genesis of the idea to extend the plan and offer additional performance shares was to provide a reward and an incentive for senior level employees who have a long employment history and good performance record.

It was also intended that these performance shares could be used to provide an incentive for employees with potential for a longer term contribution to the success of the company to participate in the growth of equity value of the company.

Part of the company’s success as an organisation is premised on human domain expertise and the consistency and longevity of service of key management.

The offer of these additional performance shares is designed to encourage and reward employees to commit to longevity as well as to complement other traditional forms of executive remuneration.

By rewarding those executives who commit to the company over a very long period and thereby providing management stability as the business grows and matures, the board believes long term shareholder benefits will result.

The long term retention incentives are offered to selected employees with the principal vesting condition that participants must remain employed for the term specified. The shares offered remain at risk of forfeiture until the relevant period of service has been satisfied. There is no entitlement to dividends during the relevant period of service.

# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

Offers made are staggered in such a way that for 100% of the shares to vest, the employee must remain in employment for 10 years from the date of the initial offer, with a minimum of 7 years. In the context of the overall remuneration strategy of the company, the history of the performance of the company, and the relative number of the shares offered, the Remuneration Committee is of the view that the addition of this retention incentive to remuneration offered is appropriate and ‘fair and reasonable’, a view supported by the independent consultant engaged at the time. The independent consultant did not make any remuneration recommendation in relation to the key management personnel for the company.

It is the Remuneration Committee’s belief that the addition of these performance shares has added to the balance and overall mix of remuneration to the applicable employees in a positive way. If the exacting service requirements are not satisfied then any costs incurred under AASB 2 will be recouped and any forfeited shares will be available for reallocation or to fund other employee equity entitlements.

No offers were made under this plan to key management personnel for the performance period 2015 – 2021.

		Offered in 2011 to vest in 2017 conditional on employment	Offered in 2012 to vest in 2018 conditional on employment	Offered in 2013 to vest in 2019 conditional on employment	Offered in 2014 to vest in 2020 conditional on employment
<b>Chris Hagglund</b>	Group CFO	25,000	25,000	50,000	5,000
<b>Myron Zlotnick</b>	General Counsel/ Company Secretary	25,000	25,000	50,000	5,000
<b>Sam Allert</b>	MD Business and Accountant Group ANZ	12,500	12,500	25,000	0
<b>Daniel Rabie</b>	Chief Operating Officer	3,750	3,750	7,500	5,000
<b>Pete Sanders*</b>	MD Business Group	0	0	5,000**	5,000**

\* Resigned on 12 May 2015.  
 \*\* Lapsed.

### Other information

The Remuneration Committee retains a discretion under the rules of the plans to over-rule the automatic vesting of incentives in the event of “capital events” such as takeovers or restructures.

The Remuneration Committee retains a discretion to withhold unvested offers, disallow vesting or clawback long-term incentives paid in the case of serious misconduct or material misstatement in the financial statements respectively.

There is no entitlement to dividends during any performance period.

The company’s Trading Policy prohibits directors, key management personnel and employees from entering into a transaction with securities which limit the economic risk of any unvested entitlements awarded under any Reckon equity-based remuneration scheme. Prior to presenting full-year results equity plan participants are required to confirm that they have not entered into any transactions which would contravene the company’s Trading Policy.

## 5. Terms of Employment for Key Management Personnel

The executive directors and Group executives are all appointed on standard employment terms that are not fixed term contracts. These contracts include a notice period of between 1-3 months to be provided by either the executive or the company. No contract provides for termination payments except where the employee is to receive payment in lieu of notice.

Participation in the short term and long term incentive elements are not fixed entitlements arising under employment contracts. Offers made under these plans are dependent on the CEO’s recommendation and the board’s approval each year.

## 6. Balance Between Salary, Short-Term and Long-Term Incentives

Setting remuneration is not an exact science and an overly formulaic approach can be undesirable. A wide range of qualitative and quantitative factors have to be taken into account. It is the board’s opinion that the changes made in the approach to remuneration in 2014 and 2015 go a long way to more expressly articulate its approach to remuneration. The board believes that an adequate balance is struck between the components comprising the relevant remuneration. For short term incentives, the performance targets reflect, in part, the key factors that the company pursues in measuring its performance: volume of sales; earnings generated; and value returned to shareholders in terms of EPS. The targets also represent a measure of an incentive to encourage commitment to the business and to its growth. The audited financial results for the year are used to assess whether the performance conditions are satisfied. Audited results represent an independent accurate method of determining the attainment of the conditions. For long-term incentives, the board is considering a new performance benchmark that will pose adequate thresholds representing all stakeholders’ interests before rewards vest taking into account the new phase the company is entering.

# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

### 7. Remuneration Tables

Short term employee benefits							
Fixed component				Short term incentive component			
Office		Salary		Total Bonus Amount		Other Short Term benefits <sup>4</sup>	
		2015	2014	2015	2014	2015	2014
Non-executive Directors <sup>3</sup>							
John Thame <sup>5</sup>	Chairman	\$59,000	\$115,000	\$0	\$0	\$0	\$0
Greg Wilkinson	Deputy Chairman	\$104,000	\$100,000	\$0	\$0	\$0	\$0
Ian Ferrier	Director	\$104,000	\$100,000	\$0	\$0	\$0	\$0
Chris Woodforde <sup>6</sup>	Director	\$45,000	na	\$0	na	\$0	na
Executive Director <sup>3</sup>							
Clive Rabie	CEO	\$747,925	\$719,218	\$303,899	\$291,517	\$0	\$0
Other key management personnel							
Sam Allert	MD Business and Accountant Group ANZ	\$375,150	\$360,782	\$93,693	\$94,941	\$6,833	\$8,104
Daniel Rabie <sup>7</sup>	Chief Operating Officer	\$215,000	na	\$28,837	na	\$0	na
Pete Sanders <sup>8</sup>	MD Business Group	\$102,399	\$235,000	\$0	\$50,136	\$0	\$0
Richard Hellers	President/CEO nQueue Billback	na	\$345,898	na	\$22,099	na	\$7,145
Chris Hagglund	Group CFO	\$435,850	\$420,625	\$139,909	\$135,410	\$0	\$0
Myron Zlotnick	General Counsel	\$350,000	\$337,994	\$92,664	\$90,325	\$0	na
TOTAL		\$2,538,324	\$2,734,517	\$659,002	\$684,428	\$6,833	\$15,249

1. The dollar values of the long term incentive and retention component is the fair value using a model that adapts the Monte Carlo simulation approach: (1) allocated over each year of the 3 year performance period for 2013 to 2015 and (2) allocated over the 7 year period from 2014 to 2020 for shares offered as a long term retention incentive. No long term retention incentive shares were offered to key management personnel in 2015. The fair value of the performance shares offered in 2015 for the performance period 2015 to 2017 at grant date was \$1.701 per share valued according to the Monte Carlo simulation approach. For the performance period 2015 to 2017 performance shares were offered as follows: Mr Hagglund (45,015 shares), Mr Zlotnick (29,274 shares), Mr Allert (19,331 shares) and Mr Sanders (10,000 shares). The effective date of grant for each of these participants was 1 January 2015. If the performance criteria are met, then the shares are released at no consideration on 31 December 2017. The fair value of performance shares which vested or were forfeited during the 2015 financial year is set out in the table below. No options were granted to any person during the year as part of their remuneration. No options vested during the financial year. All options issued in previous years were fully vested in prior years. No options were exercised during 2015.

2. The dollar value of the share appreciation incentive in the above table is determined using a model that adapts the Monte Carlo simulation

Post employment benefits		Long term employee benefits				Total Remuneration	
Other compensation		Long term incentive component					
Superannuation		Equity settled share based payments-Performance shares <sup>1</sup>		Cash settled share based payments-Appreciation rights <sup>2</sup>			
		2015	2014	2015	2014	2015	2014
\$5,605	\$10,781	\$0	\$0	\$0	\$0	\$64,605	\$125,781
\$9,880	\$9,375	\$0	\$0	\$0	\$0	\$113,880	\$109,375
\$9,880	\$9,375	\$0	\$0	\$0	\$0	\$113,880	\$109,375
\$4,275	na	\$0	na	\$0	na	\$49,275	na
\$35,000	\$30,000	\$0	\$0	\$188,784	\$157,263	\$1,275,608	\$1,197,998
\$30,000	\$27,500	\$19,332	\$38,698	\$0	\$0	\$525,008	\$530,025
\$20,425	na	\$5,465	na	\$0	na	\$269,727	na
\$8,647	\$22,031	\$0	\$2,421	\$0	\$0	\$111,046	\$309,588
na	\$14,199	na	\$7,494	na	\$0	na	\$396,835
\$34,400	\$30,000	\$43,387	\$90,405	\$0	\$0	\$653,546	\$676,440
\$33,250	\$28,412	\$33,505	\$69,430	\$0	\$0	\$509,419	\$526,161
\$191,362	\$181,673	\$101,689	\$208,448	\$188,784	\$157,263	\$3,685,994	\$3,981,578

approach allocated over each year of the 3 year performance period for 2015 to 2017. The fair value of the rights offered in 2015 for the performance period 2015 to 2017 was \$0.253 valued according to the Monte Carlo simulation approach. 747,036 rights were issued under the plan effective on 1 January 2015 for the performance period 2015 to 2017. The fair value of appreciation rights which vested or were forfeited during the 2015 financial year is set out in the table below.

3. To the extent that any of the above are directors of any wholly owned subsidiaries of the company no additional remuneration is paid.

4. The payment to Mr Allert is interest on loan. The payment to Mr Hellers in 2014 was a contribution to medical insurance.

5. Retired effective 30 June 2015.

6. Appointed 1 July 2015.

7. Appointed COO on 27 July 2015.

8. Resigned effective 12 May 2015.

# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

### 7. Remuneration Tables (continued)

	Office	Performance Related % of amounts paid		Percentage of available bonus which vested in the year		Percentage of available bonus which was forfeited during the year		No of performance shares vested	
		2015	2014	2015	2014	2015	2014	2015	2014
Non-executive Directors									
John Thame	Chairman	0%	0%	na	na	na	na	na	na
Greg Wilkinson	Deputy Chairman	0%	0%	na	na	na	na	na	na
Ian Ferrier	Director	0%	0%	na	na	na	na	na	na
Executive Director									
Clive Rabie	CEO	39%	37%	87%	91%	13%	9%	na	na
Other key management personnel									
Sam Allert	MD Business and Accountant Group ANZ	22%	26%	87%	91%	13%	9%	8,571	10,894
Daniel Rabie	Chief Operating Officer	13%	na	87%	na	13%	na	na	na
Pete Sanders	MD Business Group	na	17%	na	91%	na	9%	na	0
Richard Hellers	President/CEO nQueue Billback	na	9%	na	10%	na	90%	na	0
Chris Hagglund	Group CFO	28%	33%	87%	91%	13%	9%	19,958	33,226
Myron Zlotnick	General Counsel	25%	30%	87%	91%	13%	9%	12,979	21,787
TOTAL								41,508	65,907

Value of performance shares vested		Value of performance shares forfeited		Value of appreciation rights shares vested		Value of appreciation rights forfeited	
2015	2014	2015	2014	2015	2014	2015	2014
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	\$12,747	\$175,000	\$176,253	\$0
\$19,215	\$25,062	\$13,913	\$0	na	na	na	na
\$0	na	\$0	na	na	na	na	na
na	\$0	na	\$0	na	na	na	na
na	\$0	na	\$0	na	na	na	na
\$44,744	\$76,438	\$32,400	\$0	na	na	na	na
\$29,098	\$50,122	\$21,069	\$0	na	na	na	na
\$93,057	\$151,622	\$67,382	\$0	\$12,747	\$175,000	\$176,253	\$0

# Directors' Report (continued)

## Remuneration Report – Audited (continued)

### 8. Shareholdings Disclosures

Options and Shareholding 2015							
2015 <sup>1</sup>	Office	Share holding at start of 2015	Share holding at end of 2015 <sup>2</sup>	Performance shares at start of 2015	Performance shares vested in 2015	Performance shares issued in 2015	Performance shares held at end of 2015
<b>Greg Wilkinson</b>	Deputy Chairman, Non-Executive Director	7,450,000	7,450,000	0	0	0	0
<b>Clive Rabie</b>	CEO, Executive Director	10,758,000	10,758,000	0	0	0	0
<b>John Thame<sup>3</sup></b>	Chairman, Non-Executive Director	19,000	19,000	0	0	0	0
<b>Chris Woodforde<sup>4</sup></b>	Non-Executive Director	20,000	0	0	0	0	0
<b>Myron Zlotnick</b>	General Counsel & Co Secretary	155,548	184,092	184,370	12,979	29,274	175,702
<b>Ian Ferrier</b>	Non-Executive Director	100,000	100,000	0	0	0	0
<b>Chris Hagglund</b>	Chief Financial Officer	453,697	473,655	177,169	19,958	45,015	187,774
<b>Pete Sanders<sup>5</sup></b>	MD Business Group	0	0	10,000	0	10,000	0
<b>Sam Allert<sup>6</sup></b>	MD Business & Accountant Group ANZ	26,926	8,571	80,993	8,571	19,332	85,548
<b>Daniel Rabie<sup>7</sup></b>	Chief Operating Officer	0	0	0	0	0	0

The following performance shares lapsed in 2015: Mr Zlotnick (9,398), Mr Hagglund (14,452), Mr Allert (6,206)

- No options were issued in 2015.
- Since 1 January 2015 Mr Wilkinson has purchased 398,900 shares, Mr C Rabie has purchased 240,000 shares, Mr Hagglund has purchased 50,000 shares, Mr D Rabie has purchased 100,000 shares. Apart from this, shareholdings at the date of the previous year's Director's Report remain unchanged.
- Retired 30 June 2015.

### 8. Shareholdings Disclosures

Options and Shareholding 2014							
2014 <sup>8</sup>	Office	Share holding at start of 2014	Share holding at end of 2014	Performance shares at start of 2014	Performance shares vested in 2014	Performance shares issued in 2014	Performance shares held at end of 2014
Greg Wilkinson	Deputy Chairman, Non-Executive Director	7,450,000	7,450,000	0	0	0	0
Clive Rabie	CEO, Executive Director	10,508,000	10,758,000	0	0	0	0
John Thame	Chairman, Non-Executive Director	19,000	19,000	0	0	0	0
Myron Zlotnick	General Counsel & Co Secretary	133,761	155,548	176,602	21,787	29,555	184,370
Ian Ferrier	Non-Executive Director	0	100,000	0	0	0	0
Chris Hagglund	Chief Financial Officer	370,471	453,697	167,636	33,226	42,759	177,169
Pete Sanders	MD Business Group	0	0	5,000	0	5,000	10,000
Sam Allert	MD Business & Accountant Group ANZ	16,032	26,926	75,671	10,894	16,216	80,993
Richard Hellers	President/ CEO nQueue Billback	0	0	25,000	0	0	25,000

- Appointed 1 July 2015.
- Resigned 12 May 2015.
- Appointed MD Business & Accountant Group ANZ on 1 July 2015.
- Appointed COO on 27 July 2015.
- No options were issued in 2014.

# Directors’ Report (continued)

## Remuneration Report – Audited (continued)

### 9. Overview of Remuneration Plans 2015

	Fixed remuneration	Short term incentive	Long term incentive (Only 2015 - 2017)	Long term retention incentive
Award	Cash	Cash	Performance shares Share appreciation rights	Performance shares
Clawback	na	Yes	Yes	Yes
Deferral	na	Yes	na	na
Vesting conditions	na	Equal weighted targets set in budget: * Revenue * EBITDA * EPS	Relative TSR 80% vests if rank at 80% of ASX 300 up to 130% at 120% of ASX 300	Employment for 7 years: 25%. Employment for 8 years: 25%. Employment for 9 years: 50%.
Vesting period	na	1 year and 2 years	3 years	7 – 9 years
Retesting	na	No	No	na
Capped	na	90% – 110%	80% – 130%	100%
Change in control	na	na	Vest subject to discretion to the contrary.	Vest subject to discretion to the contrary.
Fee cap Aggregate for NEDs	Yes, \$400,000 fixed at 2008 Annual General Meeting.	na	na	na
Dividends	na	na	None until vesting.	None until vesting.
Employment termination payments	na	na	Payment of unvested entitlements is not permitted. The Remuneration Committee retains a discretion to permit release of a portion of entitlements as reward for a pro rata performance period and not an employment termination payment.	Payment of unvested entitlements is not permitted. The Remuneration Committee retains a discretion to permit release a portion of entitlements as reward for a pro rata performance period and not an employment termination payment.

### Indemnification of Directors and Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the Company Secretary and all executive officers of the company, and of any related body corporate, against a liability incurred as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

In addition, Rule 12 of the company’s Constitution obliges the company to indemnify on a full indemnity basis and to the full extent permitted by law, every director, officer or former officer for all losses or liabilities incurred by the person as an officer. This obligation continues after the person has ceased to be a director or an officer of the company or a related body corporate, but operates only to the extent that the loss or liability is not covered by insurance.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company, or any related body corporate, against a liability incurred as an officer or auditor.

### Directors’ Meetings

The following table sets out the number of directors’ meetings held during the financial year and the number of meetings attended by each director.

Reckon Limited – Attendance Tables						
Directors	Meeting					
	Board		Audit & Risk Committee		Remuneration Committee	
	A	B	A	B	A	B
JM Thame	5	5	1	1	2	2
I Ferrier	11	10	2	2	2	2
GJ Wilkinson	11	11	2	2	2	2
C Woodforde	6	6	1	1	0	0
C Rabie	11	11	na	na	na	na

Key:

A - number of meetings eligible to attend

B - number of meetings attended



# Directors' Report (continued)

## Non-Audit fees

Details of the non-audit services can be found in note 5 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 5 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit & Risk Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the company or jointly sharing economic risks and rewards.

On behalf of the directors



**Mr I Ferrier**  
Chairman  
Sydney 29 March 2016

# Corporate Governance Statement

The company is committed to a system of relationships, policies and processes which align with ASX Corporate Governance Principles and Recommendations, 3rd Edition ("the ASX Principles and Recommendations"). It is a priority of the board to ensure the company's governance framework and support processes uphold these principles.

The board is of the opinion that the company's existing policies and processes effectively achieve the objectives of the relevant recommendations. The intention and spirit of the ASX Principles and Recommendations are integral to the company's governance framework. They are incorporated into the management and decision-making processes of the company. The few departures from the recommendations in the ASX Principles and Recommendations are primarily only to the extent a governance policy or process was not formalised. This is generally justified on the basis that while the objective of the recommendations has been adopted, the formal requirements of the recommendations were not considered applicable to the size of the company and the resources available at the time. Where appropriate, the board seeks opportunities to adopt these recommendations to suit the circumstances of the company and continue to improve the company's governance policies and processes. As part of the board's ongoing review and assessment of the company's governance processes most of these policies and processes have been or are in the process of being formalised, where appropriate, as identified in this report.

The company's governance related policies and documents can be viewed on the company's website [www.reckon.com](http://www.reckon.com). The board's Corporate Governance documents can be viewed in the Shareholder Centre by clicking About Us link from the company's website [www.reckon.com](http://www.reckon.com) ("website")

This Corporate Governance Statement ("Statement") discloses the extent to which the company follows the recommendations as at 31 December 2015 and has been approved by the board on 15 March 2016.

## 1. Lay Solid Foundations for Management and Oversight

The company is governed on behalf of the shareholders by its Board of Directors who in turn oversee the company's management team.

The board is of the opinion that its governance practices and policies comply with each of the recommendations relating to Principle 1. This opinion is justified on the basis that the company's governance practices are based on the different responsibilities and duties of the board and management; processes and documentation relating to the nomination and appointment of directors and senior management and relevant agreements; the accountability and duties of the Company Secretary; recognition that diversity and inclusiveness are important aspects of effective management and contribute to the success of the company; recognition the importance of cultivating diversity and inclusiveness in the company to the effective management of the business and performance evaluation processes for the directors and senior management.

The responsibilities and duties of the board are set out in the Constitution, the company's Corporate Governance Statement and as formalised in the Board Charter. The Board Charter can be viewed on the website. The Charter outlines the processes, obligations and responsibilities of the board and can be viewed on the website. The board is responsible for ensuring appropriate risk management, accountability and control mechanisms. The board also provides advice and input into development of the businesses generally, overall corporate strategy, performance objectives, and appointment of senior executives. The board monitors and reviews the performance of the company, financial reporting and implementation of strategy. The board approves the annual budget, material capital expenditure and large acquisitions. Other than matters specifically reserved for the directors in the Constitution and Board Charter, the directors delegate responsibility for implementing the strategic objectives and the day-to-day running of the company to the CEO and management.

The board's composition and relatively small size and flat structure combined with a small management team, enables ready communication and dynamic engagement within management and with the board. The clear channels of communication between management and the board ensure the board is provided with accurate, timely and clear information to enable the board to perform.

# Corporate Governance Statement (continued)

Accordingly there is an understanding of the functions and responsibilities of the board and management as set out in the Board Charter. The board maintains sufficient close oversight of operations and has close input to material decisions to ensure compliance with principles of good corporate governance. The board recognises that with the growth and evolution of the company, it is important to review the division of matters and responsibilities reserved to the board in accordance with the Board's Charter.

The board is able to efficiently deal with issues which, in other larger enterprises, may normally be delegated to committees not only because of the size of the company and the management team, but also because of the readily accessible channels of communication between board and management. Management communicates with the board through the executive directors and when required managers attend board meetings, and/or meet with directors, to report or address any questions or concerns of the directors directly. The Audit & Risk Committee and Remuneration Committee are the only committees of the board.

The Constitution and Board Charter set out the processes and matters which need to be addressed in relation to the selection, nomination and of candidates for election or re-election as director, including appropriate checks and the information to be made available to shareholders. Information about current directors is available on the website, the Annual Report and in the Notice of Meeting in which directors are to be elected or re-elected. Consistent with the current requirements of the ASX Principles and Recommendations, the company will ensure all relevant details of any new nominations are available on the website and in the relevant Notice of Meeting for consideration by the shareholders as to whether or not to elect or re-elect a director. The Charter also confirms the matters which are to be dealt with in the written agreements and letters of appointment between the company and each director and senior executive.

The Company Secretary's appointment, responsibilities and accountability to the board through the Chair on all matters to do with the proper functioning of the board are outlined in the Board Charter and also addressed in the Company Secretary's letter of appointment. There is also direct, regular informal communication between the Chair and the Company Secretary on governance matters.

The company undertakes an annual performance evaluation of key management personnel, heads of divisions and head office management (CFO, General Counsel and Company Secretary), and generally involves a review and assessment of the performance of relevant executives and managers against key performance indicators. This process may also include feedback from peers where relevant and the Division CEOs and the relevant executive or manager. Where applicable, remedial steps and coaching are implemented. There may be further additional reviews undertaken through the year if necessary. The process and outcome of the performance evaluation of senior management and directors undertaken in the reporting period is reported in the Remuneration Report.

The company recognises that diversity and inclusiveness is a critical part of effective management of its people and their contributions to the success of the company. This diversity is reflected in the differences in gender, race, age, culture, education, family or carer status, religion and disability which are found across the company, its employees, consultants and contractors. When considering nominees for any future candidates for the board, the directors will take appropriate steps to ensure that it considers a broad range of candidates to ensure that the company has the benefit of the appropriate mix of experience, skills and diversity in its decision making for the best interests of the company as a whole.

The reporting profiles against which the company is reporting the current status of diversity as to gender have been adapted to comply with the reporting requirements under the Workplace Gender Equality Agency Act (2012) ("the WGEA report") which were lodged with the WGEA in 2014 and expanded for the report submitted in 2015 for the 2014 to 2015 period. Both of these reports can be viewed on the website.

As reported in 2011, the board set key measurable objectives and KPIs, to promote diversity in the company, particularly as to gender. The company continues to be committed to those objectives, which are:

- To achieve greater representation of females in the Reckon Group, particularly in technical and supervisor / manager roles.
- To review policies and internal procedures to ensure they provide equitable, fair and flexible work practices, including consistency with the company's commitment to diversity, particularly gender diversity, in the organisation.
- To implement training (in-house or external where relevant) to support a culture of diversity, for example: appropriate behaviour, harassment etc.
- Development of a mentoring/succession program for all employees to encourage females to remain in the business.

The Workplace Gender Equality Agency ("WGEA") report ("WGEA Report") submitted by the company relating to Reckon employees in Australia for the 2014 to 2015 period can be viewed on its website. It was also published on the company's intranet site for access by its employees. For consistency, the criteria used to determine the workplace profile of Reckon employees for the WGEA report has also been applied for this report in relation to recommendation 1.5 of the ASX Principles and Recommendations.

Based on the WGEA report for 2015, women represent 35% of the workforce at Reckon Australia, consisting of a representation of 55% non-management positions and 30% management roles an increase of 1% since 2014. There has been an increase of 4% in the representation of women in technical roles in 2015. There are no female members on the board.

The company continues to seek an increase in the representation of women in the workforce. Initiatives throughout the year will be rolled out to encourage diversity and put gender equality at the front of mind of all our employees.

Based on the Gender Equality Benchmarks produced by the Workplace Gender Equality Agency ("WGEA") the representation of women across the categories are generally consistent with similar sized businesses in the industry. The WGEA Gender Benchmark Studies will be used to assist in the company's continuing review of strategies and practices to continue to foster diversity in the company, particularly as to gender. The company continues to seek an increase in the representation of women in technical roles. In consideration of the company's anticipated recruitment needs for technical roles, the company will seek a 5% increase on the 2011 numbers by 2016.

The company's Diversity & Inclusion Policy Statement as approved by the board on 15 December 2011 is published on the company's website.

# Corporate Governance Statement (continued)

## 2. Structure the Board to Add Value

At present, the board comprises four members: Chris Woodforde, Ian Ferrier, Greg Wilkinson and Clive Rabie. Ian Ferrier is Chairman of the board and he, together with Chris Woodforde, are independent non-executive directors. Further details of the directors, including a summary of their skills and experience and period of office, are set out in the Directors' Report and on the website.

In the opinion of the board, the existing structure and processes are appropriate for the company and still meet the objectives of Principal 2 of the ASX Principles and Recommendations although the company has not fully adopted some of the recommendations relating to the appointment of a nomination committee in recommendation 2.1 as described below.

The criteria for directorship and the election process are set out in the company's constitution and Board Charter. The size of the board and circumstances of the company dictates that there is no efficiency obtained in establishing a separate formal nomination committee. Accordingly, the company departs from this requirement in recommendation 2.1. Instead, the directors periodically review the composition of the board to ensure that members have the desired breadth of experience, skills and expertise to govern the company effectively. Any decision regarding the appointment of new directors is taken cognisant of the need to appoint someone who, taking into account the mix of skills and diversity, experience and perspective of the other directors, is appropriately qualified and as far as possible familiar with the company's market sector and its opportunities. The independent non-executive directors oversee the nomination of any potential director.

In accordance with recommendation 2.2, the board has created a board skills matrix to map the skills which, in the board's opinion, should be represented on the board to enable it to effectively meet the company's strategic needs. This matrix was approved by the board on 15 March 2016 and will inform the selection process for nominees for any future candidates for the board and board self-assessment. The board skills matrix summarising the collective skills of the current board can be viewed on the website.

The board recognises the importance of effective, independent judgement being brought to bear in the governance and decision making processes of the company to ensure they are in the best interests of the company. The board considers it is able to provide the necessary independence of judgement to operate in the best interests of the company and its security holders. Chris Woodforde, Ian Ferrier and Greg Wilkinson are non-executive directors. In the board's opinion, the non-executive directors, Chris Woodforde and Ian Ferrier are both independent directors.

The Chair, who is independent, complies with recommendation 2.5 and has a casting vote. Accordingly, taking into account the size of the board and the Chair's casting vote, the board is of the opinion it meets the objectives of recommendation 2.4 as the exercise of its powers is consistent with a board composed of a majority of independent non-executive directors.

Until recently the company did face the question of the length of tenure of directors. As previously reported the board was of the opinion that this was not a negative issue and that the depth of experience was important as the company confronted change in the market. In any event with the retirement of John Thame on 30 June 2015 and the appointment of Chris Woodforde on 1 July 2015, the board is of the opinion that the right balance has been struck between directors with lengthy tenure (and excellent understanding of the business) and the fresh perspective of a new director. The board is of the view that Ian Ferrier is not too close to management merely because he has served on the board for a substantial period.

Greg Wilkinson has occupied a non-executive position for more than three years since he resigned from the management of the company. As a substantial shareholder and company founder the board acknowledges that Greg Wilkinson does not meet the criteria used by ASX and some other investor organisations to determine the independence of a director. On this basis, although he is a non-executive director Greg Wilkinson is not considered an independent director by the board, for the purposes of the ASX Principles and Recommendations. However, an underlying principle of the ASX Principles and Recommendations is that the recommendations are to be considered in the context of the specific circumstances of the director and the company in each case. Although Greg Wilkinson

may not meet the ASX criteria to be described as an independent director, the board considers that Greg Wilkinson's skills, engagement and experience in other IT, start-up businesses, his depth of knowledge of the customer base, products and services of the company, insights into the relevant markets and experience give depth and objectivity, and inform his contributions to board discussions and decision making, and that this is consistent with the objectives of Principle 2. Further, the board is of the opinion that, his substantial holding in the company does not compromise his judgement or decisions. As such, the board is confident that Greg Wilkinson's presence on the board brings an independent and uncompromised perspective to the issues before it for consideration as well as deepening the board's overall skills and experience.

Directors declare any actual or potential interests or conflicts as and when they arise, and in any case at each board meeting, and where applicable remove themselves and/or abstain from any discussion or resolution of issues which is likely to give rise to a conflict of interest.

The issues that come before the board are considered in an impartial manner and from a variety of perspectives. In the board's opinion, the size and composition of the board enables it to meet the requirements of independence for the purpose of providing objective, impartial consideration and judgement to the company's governance processes and decision making.

The independent non-executive directors oversee the nomination of any potential directors.

The Board Charter confirms the entitlement of directors to seek independent professional advice at the company's expense to assist them in fulfilling their duties in order to comply with all applicable laws and regulations. There is no formal procedure for the board to determine as to when it or any director should take independent advice at the expense of the company, but given the size of the board there is no efficiency to be obtained in formalising this process. The independent non-executive directors exercise their judgment to call for such advice when they deem appropriate. The Chair also has frequent contact with the Company Secretary to confirm or follow up on relevant matters, including assessing the need for external advice.

The board met 11 times during 2015. The details of attendance at these meetings are set out in the Directors' Report. The independent non-executive directors monitor and review the ongoing performance of the executive directors and key executives. The independent non-executive directors occasionally meet informally without management being present to generally discuss the affairs of the company and the overall performance of key executives.

The independent non-executive directors are subject to the company's Constitution and their continuity of tenure is dependent on re-election by shareholders in accordance with the constitution.

While there is no formal induction or training process in place, the Chair, Deputy Chair and Group CEO undertake a rigorous process of briefing new board members. The Board Charter outlines the overall approach to nomination, induction, evaluation and training of directors. Additional training for directors will be arranged as required.

# Corporate Governance Statement (continued)

## 3. Ethical and Responsible Decision Making

The company's governance policies and processes incorporate all the recommendations relating to Principle 3 of the ASX Principles and Recommendations.

The board's policy is that the company, the directors and employees in addition to their legal obligations must maintain high ethical standards in their dealings with the public and other members of the industry.

The company's Human Resources Policy and Procedures, binding on all employees, also collectively embrace the substance of the ASX Principles and Recommendations in a Code of Conduct, including expectations regarding behaviour in the workplace, disciplinary processes, grievance processes, discrimination and harassment, occupational health and safety, ethical business practices, conflict of interest and corporate opportunity. The company is committed to training employees and maintaining employees' relevant technical expertise and understanding of their ethical and legal obligations, for example by way of trade practices training from time to time for relevant staff.

## 4. Safeguard Integrity in Corporate Reporting

The board is of the opinion that its governance practices meet the requirements of each of the recommendations relating to Principle 4.

The board assumes the responsibility of ensuring the integrity of the company's financial reporting and has established the Audit & Risk Committee to focus on the issues relating to the integrity of the financial reporting of the company and oversight and review of the company's risk management. The terms of reference for the Audit & Risk Committee, to review and monitor all financial, risk management and compliance policies, were formalised in a Charter in 2003 to meet the requirements of the ASX Principles and Recommendations.

The Audit & Risk Committee consists of 3 non-executive directors, being Chris Woodforde, Ian Ferrier and Greg Wilkinson. Ian Ferrier and Chris Woodforde are independent directors and form the majority. The Committee was chaired by Ian Ferrier for 2 of the 3 meetings held in 2015. Chris Woodforde took over as Chairman of the Audit & Risk Committee for the last meeting of the year. Details of their experience and qualifications are set out in the Directors' Report and on the website.

The Audit & Risk Committee also meets informally to discuss matters including risk management and reporting. The board is of the opinion that the structure of the Committee, together with its considerable technical expertise in the market sector of the company and in financial literacy, ensures independent review of the company's financial reporting over and above formal audit processes, enabling it to discharge its functions effectively.

Deloitte Touche Tohmatsu, the company's auditors, report directly to the Audit & Risk Committee on the appropriateness of the company's internal accounting policies and practices. The board reviews the adequacy of existing external audit arrangements each year, with particular emphasis on the scope and quality of the audit. The Audit & Risk Committee reports back to the board after each Audit & Risk Committee meeting. The Audit & Risk Committee provides written advice to the board on the standard of independence of the auditors in light of any non-audit services during 2015 and which is reported in the Directors' Report. The CEO and CFO also provide the s295A certificate and declaration of the CEO and CFO. This declaration also states that their opinion is based on there being a sound system of risk management and internal controls operating effectively for the relevant financial period.

At each Audit & Risk Committee meeting, the Committee directors meet separately with the auditors without management being present to review any concerns that the auditors may have regarding the financial management of the company. The Audit & Risk Committee met twice during 2015. The details of attendance at these meetings are set out in the Directors' Report.

The board is aware of its obligations to ensure the appropriate selection and rotation of external auditors and the external audit engagement partners and closely monitors and reviews the engagement of the company's external auditors. The company's auditor attends each Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report at the meeting.

## 5. Make Timely and Balanced Disclosure

The company has adopted each of the recommendations relating to Principle 5 of the ASX Principles and Recommendations. The board remains conscious of the company's disclosure obligations under the Corporations Act, the ASX listing rules and the ASIC guidance principles. These obligations are reflected in the Continuous Disclosure Policy. All required disclosures are also made in accordance with the Continuous Disclosure policy which is accessible to the public at the company website. A review of operations and commentary on the financial results is provided in the Directors' Report and the Financial Report.

## 6. Respect the Rights of Shareholders

The board is conscious of the requirements of Principle 6 of the ASX Principles and Recommendations takes into account the rights and needs of shareholders to balanced and understandable information about the company in accordance with this Principle.

The board is of the opinion that the company communicates effectively with shareholders through a number of channels: through its ASX disclosures to the market; through the posting of statutory notices to shareholders and at the general and special meetings of the company. The company presents its annual and half yearly results to investors. The company keeps recent announcements and general company information on its website with a dedicated investor relations section which is accessible to the public. The website contains information about the company and general meeting dates, including a link to the ASX website for older announcements. Given the size and circumstances of the company, there is no formally documented communications strategy which embodies the policies and processes in which the company engages to communicate with the investors. It is only in this respect that the company has not adopted recommendation 6.3.

All security holders have the option to receive communications from, and send communications to, the company or the registry, Computershare electronically. The website includes details as to how investors can update their details and instructions regarding the mode in which they want to communicate with us, including a link to the registry, Computershare.

## 7. Recognise and Manage Risk

As stated above in relation to Principle 1, the board is responsible for ensuring appropriate risk management, accountability, and control mechanisms. It constantly monitors the operational and financial aspects and material risks of the company's activities and, through the Audit & Risk Committee, which met twice in 2015, considers the recommendations and advice of the auditors and other external advisers on the operational and financial risks that face the company. The Group CEO and Group CFO monitor and review the financial performance of the company and monitor any potential risk essentially on a daily basis. The board has received assurance from the CEO and the



# Corporate Governance Report (continued)

## 7. Recognise and Manage Risk (continued)

CFO that the s295A Declaration provided in the Financial Report is founded on a sound system of risk management and internal control and that the system is operating effectively for the relevant financial period.

As described above, the size of the company and the management team enables the board to have effective oversight of the overall risk management of the company. In the board's opinion, especially with the existence of an Audit & Risk Committee, there is no efficiency for the company to establish a separate risk management committee.

The board is regularly informed and in a position to assess and review the company's exposure to risk and overall investment risk by way of the existing processes and the dynamic communication across management, and also between management and the board. Accordingly, the board is of the opinion that there is substantial compliance with ASX Principle 7 although it departs from recommendations 7.1, 7.2 and 7.3 to the extent it has not established a formal risk committee, an internal audit function or conducted a formal annual review of its risk management framework.

At present the nature of operations and scope of the business is reasonably well established and understood by management and the board. The company does not have a formal internal audit function. The evaluation and continual improvement of the company's risk management and internal control processes are incorporated within the existing decision making and review processes. The decision making and reporting processes in the company incorporate an assessment of the relevant material risks, for example in the planning, budget, HR, product development, R&D, legal and compliance activities and, where relevant, any material risk issues are reported to and considered by the board. The planning and budget process involves both the executive and senior management, which means all of these employees have a more than adequate understanding of the issues, activities and opportunities across the company. In turn this enables them to manage operational, planning, strategic and risk issues in the company. In addition, the company regularly conducts reviews of the material risks in the context of the annual insurance renewals and, in relation to acquisitions through due diligence. Relevant risk factors are also included in the various management and financial reports to the board and are then considered by the board.

The Company undertook a review of its information security practices using ISO27001 Information Security Management System (ISMS) as guide to provide an assurance framework for its information security practices. At the end of 2015 this review was completed and the next step is to consider what new processes or systems to implement. This is a lengthy and ongoing process.

The board does not consider the company to have any material exposure to any economic, environmental or social sustainability risk.

Due to the effectiveness of the existing processes and the size of the business, business risk management systems, policies and procedures have been monitored and reviewed as part as part of the overall reporting to the board and oversight by the board of the business, its operations, processes and risks not been comprehensively formalised. The board has access to management and employees to discuss or inform themselves of any aspect of the company's business and processes or request relevant managers present to the board on these matters, including status reports and updates.

With a view to fully adopting recommendations 7.1 and 7.2, the company's risk management systems, policies and processes are under consideration to be formalised and documented, where necessary.

## 8. Remunerate Fairly and Responsibly

The company remunerates directors and key executives in accordance with the aspirations set out in ASX Principle 8 and recommendations 8.1, 8.2 and 8.3.

Accordingly, the board has adopted a remuneration policy designed to attract and maintain talented and motivated directors and senior employees so as to encourage enhanced performance of the company.

There is a clear relationship between performance and remuneration and a desire to strike the correct balance between the various components making up remuneration. The composition, responsibilities and processes of the Remuneration Committee have been formalised in the Remuneration Charter and can be viewed on the website.

The Committee consists of three members, composed of the two independent and non-executive directors, Chris Woodforde, Ian Ferrier and the non-executive director Greg Wilkinson. From 2016 onwards the Remuneration Committee is chaired by Chris Woodforde. Details of their experience and qualifications are set out in the Directors' Report and the website. The Remuneration Committee ensures independent review of financial reporting over and above formal audit processes. The Remuneration Committee supervises the development and implementation of the company's remuneration policy including the operation of share based reward plans, and reviews the performance of the executive directors and senior executives. The Committee fixes policy and reward in accordance with ASX Principle 8. The Remuneration Committee Charter can be viewed on the website. The full details of the policy and remuneration including the disclosures relating to policies and practices regarding the remuneration of directors and senior management required by recommendation 8.2 are set out in the Remuneration Report. The Remuneration Committee met 3 times during 2015. The details of attendance at these meetings are set out in the Directors' Report. The company does have an equity-based remuneration scheme. The Remuneration Report outlines the policy prohibiting participants in any scheme to hedge their risks of participating in this scheme.



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

29 March 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 audit of the financial statements of Reckon Limited for the financial year ended 31 December 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

Alfie Nehama

Partner  
Chartered Accountants



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

## Report on the Financial Report

We have audited the accompanying financial report of Reckon Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 53 to 104.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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



# Auditor's Report

## Auditor's Independence Declaration

### Opinion

In conducting our audit, 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 report.

In our opinion:

(a). The financial report of Reckon Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b). The consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1

## Report on the Remuneration Report

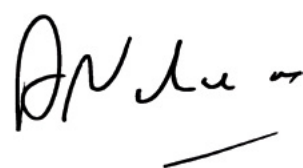
We have audited the Remuneration Report included in pages 16 to 38 of the directors' report for the year ended 31 December 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Opinion

In our opinion, the Remuneration Report of Reckon Limited for the year ended 31 December 2015, complies with section 300A of the Corporations Act 2001.



DELOITTE TOUCHE TOHMATSU



**Alfie Nehama**

Partner  
Chartered Accountants  
Sydney, 29 March 2016

# Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes as set out on pages 54 to 104, are in accordance with the Corporations Act 2001, and:
  - Comply with Accounting Standards; and
  - Comply with International Financial Reporting Standards, as stated in note 1 to the financial statements; and
  - Give a true and fair view of the financial position as at 31 December 2015 and of the performance for the year ended on that date of the consolidated group;
2. The Chief Executive Officer and the Chief Finance Officer have each declared that:
  - The financial records of the company for the financial year have been properly maintained in accordance with s 286 of the Corporations Act 2001;
  - The financial statements and notes for the financial year comply with the Accounting Standards, and
  - The financial statements and notes for the financial year give a true and fair view;
  - That this opinion has been formed on the basis of a sound system of risk management and internal control which are operating effectively;
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors pursuant to Section 295(5) of the Corporations Act 2001.

On behalf of the directors



**Mr I Ferrier**

Chairman  
Sydney, 29 March 2016

# Consolidated Statement of Profit or Loss

for the year ended 31 December 2015

	Note	Consolidated	
		2015 \$'000	2014 \$'000
<b>Continuing operations</b>			
<b>Revenue</b>	2	<b>105,168</b>	<b>100,795</b>
Product costs		(23,718)	(21,072)
Royalties		–	(149)
Employee benefits expenses (excluding new market expenditure)		(30,324)	(29,740)
Share-based payments expenses	2	(354)	(471)
Marketing expenses (excluding new market expenditure)		(2,354)	(2,361)
Premises and establishment expenses		(2,462)	(2,855)
Depreciation and amortisation of other non-current assets (excluding new market expenditure)		(12,517)	(11,245)
Telecommunications		(747)	(903)
Legal and professional expenses		(786)	(797)
Finance costs	2	(2,091)	(1,489)
Other expenses (excluding new market expenditure)		(5,172)	(5,321)
New market expenditure:	3		
Marketing expenses		(1,129)	–
Employee benefits expense		(908)	–
Other expenses		(540)	–
Amortisation of other non-current assets		(3,271)	(1,720)
<b>Profit before income tax</b>		<b>18,795</b>	<b>22,672</b>
Income tax expense	4	(3,714)	(5,104)
<b>Profit for the year</b>		<b>15,081</b>	<b>17,568</b>
Profit attributable to:			
Owners of the parent	23	14,577	16,964
Non-controlling interest		504	604
		<b>15,081</b>	<b>17,568</b>
<b>Earnings per share</b>		Cents	Cents
Basic Earnings per Share	24	13.1	14.2
Diluted Earnings per Share	24	13.0	14.1

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

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2015

	Note	Consolidated	
		2015 \$'000	2014 \$'000
<b>Profit for the year</b>		<b>15,081</b>	<b>17,568</b>
<b>Other comprehensive income, net of income tax</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of foreign operations	22	1,626	815
Fair value movement on interest rate swap	22	69	(245)
<b>Total other comprehensive income, net of income tax</b>		<b>1,695</b>	<b>570</b>
<b>Total comprehensive income for the year</b>		<b>16,776</b>	<b>18,138</b>
Total comprehensive income attributable to:			
Owners of the parent		16,272	17,534
Non-controlling interest		504	604
		<b>16,776</b>	<b>18,138</b>

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

# Consolidated Statement of Financial Position

as at 31 December 2015

	Note	Consolidated	
		2015 \$'000	2014 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	29	1,641	2,248
Trade and other receivables	7	9,327	9,409
Inventories	6	2,471	2,179
Current tax receivables		2,032	736
Other assets	8	2,156	2,125
<b>Total Current Assets</b>		<b>17,627</b>	<b>16,697</b>
<b>Non-Current Assets</b>			
Receivables	7	168	678
Financial assets	9	17	56
Property, plant and equipment	10	2,485	2,787
Deferred tax assets	11	193	185
Intangible assets	12	89,303	82,379
Other assets	8	1,350	1,111
<b>Total Non-Current Assets</b>		<b>93,516</b>	<b>87,196</b>
<b>Total Assets</b>		<b>111,143</b>	<b>103,893</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	13	5,508	4,604
Borrowings	14	–	76
Other financial liabilities	15	–	6,838
Provisions	16	3,653	3,306
Deferred revenue		10,653	9,715
<b>Total Current Liabilities</b>		<b>19,814</b>	<b>24,539</b>
<b>Non-Current Liabilities</b>			
Borrowings	14	49,900	43,400
Other financial liabilities	15	176	245
Deferred tax liabilities	18	6,678	5,058
Provisions	16	659	582
<b>Total Non-Current Liabilities</b>		<b>57,413</b>	<b>49,285</b>
<b>Total Liabilities</b>		<b>77,227</b>	<b>73,824</b>
<b>Net Assets</b>		<b>33,916</b>	<b>30,069</b>
<b>Equity</b>			
Issued capital	21	16,929	17,036
Reserves	22	(42,767)	(42,154)
Retained earnings	23	59,754	55,187
<b>Total Equity</b>		<b>33,916</b>	<b>30,069</b>

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

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	Acquisition of non controlling interest reserve \$'000	Attributable to owners of the parent \$'000	Non-controlling interest \$'000	Total \$'000
<b>Consolidated</b>										
<b>Balance at 1 January 2015</b>	<b>17,036</b>	<b>(42,018)</b>	<b>3,315</b>	<b>582</b>	<b>(245)</b>	<b>55,187</b>	<b>(3,788)</b>	<b>30,069</b>	<b>–</b>	<b>30,069</b>
Profit for the year	–	–	–	–	–	14,577	–	14,577	504	15,081
Other comprehensive income:										
Exchange differences on translation of foreign operations	–	–	1,626	–	–	–	–	1,626	–	1,626
Fair value movement on interest rate swap	–	–	–	–	69	–	–	69	–	69
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>1,626</b>	<b>–</b>	<b>69</b>	<b>14,577</b>	<b>–</b>	<b>16,272</b>	<b>504</b>	<b>16,776</b>
Share based payments expense	–	–	–	164	–	–	–	164	–	164
Dividends paid (note 30)	–	–	–	–	–	(10,010)	–	(10,010)	–	(10,010)
Treasury shares acquired	(215)	–	–	–	–	–	–	(215)	–	(215)
Treasury shares vested/lapsed	108	–	–	(108)	–	–	–	–	–	–
Transfer to acquisition of non-controlling interest reserve	–	–	–	–	–	–	504	504	(504)	–
Remeasurement of Linden House option liability (note 15)	–	–	–	–	–	–	(2,868)	(2,868)	–	(2,868)
<b>Balance at 31 December 2015</b>	<b>16,929</b>	<b>(42,018)</b>	<b>4,941</b>	<b>638</b>	<b>(176)</b>	<b>59,754</b>	<b>(6,152)</b>	<b>33,916</b>	<b>–</b>	<b>33,916</b>

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

# Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2015

	Issued capital	Share buyback reserve	Foreign currency translation reserve	Share-based payments reserve	Swap hedging reserve	Retained earnings	Acquisition of non-controlling interest reserve	Attributable to owners of the parent	Non-controlling interest	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2014</b>	<b>16,818</b>	<b>(14,506)</b>	<b>2,500</b>	<b>484</b>	<b>–</b>	<b>48,938</b>	<b>(6,119)</b>	<b>48,115</b>	<b>–</b>	<b>48,115</b>
Profit for the year	–	–	–	–	–	16,964	–	16,964	604	17,568
Other comprehensive income:										
Exchange differences on translation of foreign operations	–	–	815	–	–	–	–	815	–	815
Fair value movement on interest rate swap	–	–	–	–	(245)	–	–	(245)	–	(245)
Total comprehensive income	–	–	815	–	(245)	16,964	–	17,534	604	18,138
Share based payments expense	–	–	–	316	–	–	–	316	–	316
Share buyback (note 21)	–	(27,512)	–	–	–	–	–	(27,512)	–	(27,512)
Dividends paid (note 30)	–	–	–	–	–	(10,715)	–	(10,715)	–	(10,715)
Treasury shares vested/lapsed	218	–	–	(218)	–	–	–	–	–	–
Transfer to acquisition of non-controlling interest reserve	–	–	–	–	–	–	604	604	(604)	–
Remeasurement of Linden House option liability (note 15)	–	–	–	–	–	–	1,727	1,727	–	1,727
<b>Balance at 31 December 2014</b>	<b>17,036</b>	<b>(42,018)</b>	<b>3,315</b>	<b>582</b>	<b>(245)</b>	<b>55,187</b>	<b>(3,788)</b>	<b>30,069</b>	<b>–</b>	<b>30,069</b>

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

# Consolidated Statement of Cash Flows

for the year ended 31 December 2015

	Note	Consolidated Inflows/(Outflows)	
		2015 \$'000	2014 \$'000
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		116,229	112,816
Payments to suppliers and employees		(77,244)	(73,983)
Interest received		43	21
Interest paid		(2,091)	(1,489)
Income taxes paid		(3,398)	(6,078)
<b>Net cash inflow from operating activities</b>	29(b)	<b>33,539</b>	<b>31,287</b>
<b>Cash Flows From Investing Activities</b>			
Payment for buyout of non-controlling interest	15/ 29(c)	(9,032)	(2,366)
Payments for purchase of intellectual property		–	(207)
Payment for capitalised development costs		(19,840)	(16,683)
Payment for capitalised internal systems costs		(1,389)	–
Proceeds from New Zealand government development grant		1,627	1,359
Proceeds from security deposits		39	–
Payment for property, plant and equipment		(1,152)	(781)
<b>Net cash outflow from investing activities</b>		<b>(29,747)</b>	<b>(18,678)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from / (repayment of) borrowings		6,424	26,004
Payment for other financial liabilities		(674)	(764)
Payment for share buyback		–	(27,512)
Payment for treasury shares	21	(215)	–
Dividends paid to owners of the parent	29	(10,010)	(10,715)
<b>Net cash outflow from financing activities</b>		<b>(4,475)</b>	<b>(12,987)</b>
<b>Net Increase / (Decrease) in cash and cash equivalents</b>		<b>(683)</b>	<b>(378)</b>
Cash and cash equivalents at the beginning of the financial year		2,248	2,554
Effects of exchange rate changes on cash and cash equivalents		76	72
<b>Cash and cash equivalents at the end of the financial year</b>	29(a)	<b>1,641</b>	<b>2,248</b>

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

# Notes to the Financial Statements

for the year ended 31 December 2015

## 1 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. The financial report includes the consolidated entity consisting of Reckon Limited and its subsidiaries. For the purposes of preparing the consolidated financial statements, the company is a for-profit entity.

### Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations and the Corporations Act 2001, and complies with the other requirements of the law.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Reckon Limited, comply with International Financial Reporting Standards (IFRSs).

The financial statements were authorised for issue by the directors on 29 March 2016.

The financial report has been prepared in accordance with the historical cost convention, except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted. The parent entity has applied the relief available to it under ASIC Class Order 98/100, and accordingly, amounts in the financial report have been rounded off to the nearest thousand dollars, except where otherwise indicated.

### Adoption of new and revised Accounting Standards

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 their operations and effective for the current year.

The new and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

### AASB 2014-1 'Amendments to Australian Accounting Standards' (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)

The Annual Improvements 2010-2012 has made number of amendments to various AASBs, which are summarised below.

- The amendments to AASB 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to AASB 2 are effective for share based payment transactions for which the grant date is on or after 1 July 2014.
- The amendments to AASB 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of AASB 9 or AASB 139 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to AASB 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.
- The amendments to AASB 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.
- The amendments to the basis for conclusions of AASB 13 clarify that the issue of AASB 13 and consequential amendments to AASB 139 and AASB 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.
- The amendments to AASB 116 and AASB 138 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
- The amendments to AASB 124 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Annual Improvements 2011-2013 has made number of amendments to various AASBs, which are summarised below.

- The amendments to AASB 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself.
- The amendments to AASB 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, AASB 139 or AASB 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within AASB 132.
- The amendments to AASB 140 clarify that AASB 140 and AASB 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:
  - The property meets the definition of investment property in terms of AASB 140; and
  - The transaction meets the definition of a business combination under AASB 3.

The application of these amendments does not have any material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.



# Notes to the Financial Statements (continued)

## 1 Summary of Significant Accounting Policies (continued)

**AASB 2014-1 ‘Amendments to Australian Accounting Standards’**  
(Part B: Defined Benefit Plans: Employee Contributions Amendments to AASB 119)

The amendments to AASB 119 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees’ periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees’ periods of service.

The application of these amendments to AASB 119 does not have any material impact on the disclosures or on the amount recognised in the Group’s consolidated financial statements.

**Interpretation 21 ‘Levies’**

Interpretation 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

Interpretation 21 has been applied retrospectively. The application of this Interpretation does not have any material impact on the disclosures or on the amounts recognised in the Group’s consolidated financial statements.

**AASB 1031 ‘Materiality’, AASB 2013-9 ‘Amendments to Australian Accounting Standards’ – Conceptual Framework, Materiality and Financial Instruments’**  
(Part B: Materiality), AASB 2014-1 ‘Amendments to Australian Accounting Standards’ (Part C: Materiality)

The revised AASB 1031 is an interim standard that cross-references to other Standards and the ‘Framework for the Preparation and Presentation of Financial Statements’ (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations. Once all of these references have been removed, AASB 1031 will be withdrawn. The adoption of AASB 1031, AASB 2013-9 (Part B) and AASB 2014-1 (Part C) does not have any material impact on the disclosures or the amounts recognised in the Group’s consolidated financial statements.

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

### (b) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 ‘Income Taxes’; and
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 ‘Share-based Payment’ at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting



# Notes to the Financial Statements (continued)

## 1 Summary of Significant Accounting Policies (continued)

from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Where a business combination involves the issuance of a put option granted to the vendor in respect of an equity interest not owned by the parent, the present value of the put exercise price is recognised as a financial liability in the consolidated accounts of the parent entity. The recognition of this liability effectively treats the option as if it has been exercised, constituting a transaction between owners as owners which is recorded in equity. Any subsequent re-measurement is considered to be part of the equity transaction and is recorded in equity via an "acquisition of non-controlling interest reserve.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

### (c) Investments in Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal

of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with AASB 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

### (d) Depreciation and Amortisation

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis. Leasehold improvements are amortised over the period of the lease or the estimated useful life, whichever is the shorter, using the straight-line method. The following estimated useful lives are used in the calculation of depreciation and amortisation:

- Plant and equipment                      3 - 5 years
- Leasehold improvements                3 - 7 years

### (e) Trade Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within 30 days of the month of recognition.

### (f) Contributed Equity

#### *Transaction Costs on the Issue of Equity Instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

# Notes to the Financial Statements (continued)

## 1 Summary of Significant Accounting Policies (continued)

### (g) Foreign Currency Translation

#### *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"). The consolidated financial statements are presented in Australian dollars, which is Reckon Limited's functional and presentation currency.

#### *Transactions and balances*

All foreign currency transactions during the financial year have been brought to account in the functional currency using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are brought to account in the profit or loss in the period in which they arise.

#### *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency of the consolidated entity as follows:

- Assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- Income and expenses are translated at average rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of monetary items forming part of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken directly to reserves. When a foreign operation is sold, a proportionate share of such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity at the closing rate.

### (h) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of GST.

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

### (i) Intangible assets

#### *Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### *Intellectual Property*

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Customer contracts are amortised on a straight line basis over their useful life to the Group of ten years.

Brand names are not amortised but are subject to annual impairment testing. The Group has committed to continually use, invest in and promote acquired brands, therefore brands have been assessed to have an indefinite life.

#### *Research and development costs*

Research expenditure is recognised as an expense when incurred.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs in respect of enhancements on existing suites of software applications are capitalised and written off over a 3 to 4 year period. Development costs on technically and commercially feasible new products are capitalised and written off on a straight line basis over a period of 3 to 4 years commencing at the time of commercial release of the new product.

Development costs include cost of materials, direct labour and appropriate overheads.

At each balance date, a review of the carrying value of the capitalised development costs being carried forward is undertaken to ensure the carrying value is recoverable from future revenue generated by the sale of that software.

# Notes to the Financial Statements (continued)

## 1 Summary of Significant Accounting Policies (continued)

### (j) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to those temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. All deferred tax liabilities are recognised.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Reckon Limited. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group). Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

### (k) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventory on hand on a weighted average cost basis.

### (l) Leased Assets

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

Operating lease payments are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. Lease incentives are initially recognised as a liability and are amortised over the term of the lease on a straight line basis.

### (m) Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

The Group recognises a liability and an expense for the long-term incentive plan for selected executives based on a formula that takes into consideration the ranking of total shareholder return measured against a comparator group of companies.

Contributions are made by the Group to defined contribution employee superannuation funds and are charged as expenses when incurred.

### (n) Receivables

Trade receivables and other receivables are recorded at amortised cost, less impairment.

### (o) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

# Notes to the Financial Statements (continued)

## 1 Summary of Significant Accounting Policies (continued)

### (p) Revenue Recognition

#### *Sale of Goods and Disposal of Assets*

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer, the fee is fixed or determinable and collectability is probable.

Software licence fee revenue is recognised at the point of “go live” (i.e. when all users can use the system on a functional basis).

#### *Rendering of Services*

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract or on a time and materials basis depending upon the nature of the contract.

Subscription, support and maintenance revenue is recognised on a straight-line basis over the period of the contract.

In multiple element arrangements where goods and services are sold as a bundled product, the fair value of the services component is recognised as revenue over the period during which the service is performed.

#### *Interest and Other Revenue*

Interest revenue is recognised on a time proportional basis taking into account the effective interest rates applicable to the financial assets. Other revenue is recognised when the right to receive the revenue has been established.

### (q) Deferred Revenue

Revenue earned from maintenance, hosting and support services provided on sales of certain products by the consolidated entity are deferred and then recognised in profit or loss over the contract period as the services are performed, normally 12 months. Refer note 1(p) for further detail.

### (r) Earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures in the determination of basic earnings per share by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of dilutive potential ordinary shares.

### (s) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts.

### (t) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets at amortised cost (including loans and receivables), financial assets ‘at fair value through profit or loss’ (FVTPL), and financial assets at ‘fair value through other comprehensive income’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘other gains and losses’ line item in the statement of comprehensive income/ income statement.

Investments in equity instruments, which were previously classified as available for sale financial assets, are from 1 January 2012 irrevocably classified as equity instruments revalued through other comprehensive income. Quoted shares held by the Group that are traded in an active market are classified as fair value through other comprehensive income and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the asset revaluation reserve. They continue to be valued at fair value with changes to value being recognised in the asset revaluation reserve (previously available for sale asset revaluation reserve). Realised gains/losses are not recycled to net profits as was previously required under AASB 139.

A financial asset is measured at amortised cost if both the business model test and cash flow characteristics test conditions are met i.e. the asset is held with in a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the in the statement of comprehensive income/income statement.

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of



# Notes to the Financial Statements (continued)

## 1 Summary of Significant Accounting Policies (continued)

calculating the amortised cost of a financial liability and of allocating 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 on initial recognition.

### (u) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that the outflow can be reliably measured.

### (v) Fair Value estimation

The fair value of financial instruments and share based payments that are not traded in an active market is determined using appropriate valuation techniques. The Group uses a variety of methods and assumptions that are based on existing market conditions. The fair value of financial instruments traded on active markets (quoted shares), are based on balance date bid prices.

The Directors consider that the nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values.

### (w) Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should continue to develop its range of software products, are offset against development costs in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government assistance which does not have conditions attached specifically relating to the operating activities of the entity is recognised in accordance with the accounting policies above.

### (x) Hedge Accounting

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of derivative financial instruments are disclosed in note 15.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain hedging instruments, as cashflow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 15 sets out details of the fair values of the derivative instruments used for hedging purposes.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of swap hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or nonfinancial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### (y) Significant accounting judgments, estimates and assumptions

#### *Significant accounting judgments*

In applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the financial statements:

Capitalisation of development costs – the Group has adopted a policy of capitalising development costs only for products for which an assessment is made that the product is technically feasible and will generate definite economic benefits for the Group going forward. The capitalised costs are subsequently amortised over the expected useful life of the product.

Revenue recognition - in multiple element arrangements where goods and services are sold as a bundled product, the fair value of the services component is estimated and then recognised as revenue over the period during which the service is performed.

#### *Significant accounting estimates and assumptions*

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities are:

Impairment of goodwill – the Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated. The assumptions used in this estimation, and the effect if these assumptions change, are disclosed in Note 12.

Share based payments – the Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. The fair value has been determined using a model that adopts Monte Carlo simulation approach, and the assumptions related to this can be found in Note 20.

Product life and amortisation – the Group amortises capitalized development costs based on a straight line basis over a period of 3-4 years commencing at the time of commercial release of the new product. This is the assessed useful life.



# Notes to the Financial Statements (continued)

## 1 Summary of Significant Accounting Policies (continued)

### (z) New accounting standards not yet effective

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

With the exception of AASB 15 'Revenue from Contracts with Customers', initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the consolidated entity and the Company. The impact, if any, of the adoption of AASB 15 is currently being assessed.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' (2013, 2014), and the relevant amending standards	1 January 2018	31 December 2018
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	31 December 2016
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	31 December 2016
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15' and AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15'	1 January 2018	31 December 2018
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	31 December 2016
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	31 December 2016
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	1 July 2015	31 December 2016
AASB 2015-9 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	1 January 2016	31 December 2016

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 16 Leases	1 January 2019	31 December 2019
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017	31 December 2017

## 2 Profit for the Year

	Consolidated	
	2015 \$'000	2014 \$'000
Profit before income tax includes the following items of revenue and expense:		
<b>Revenue</b>		
<b>Sales revenue</b>		
Subscription revenue	63,055	52,549
Other recurring revenue	7,598	14,313
ReckonDocs revenue	21,614	20,508
Other revenue	12,858	13,404
Sale of goods and rendering of services	105,125	100,774
<b>Other Revenue</b>		
Interest revenue – Bank deposits	43	21
	43	21
	105,168	100,795
<b>Expenses</b>		
Cost of Sales	23,718	21,221
Bad debt expense:		
Other Entities	168	39
Finance costs expensed:		
Bank loans and overdraft	2,091	1,489
Net transfers to/(from) provisions:		
Sales returns and rebates	60	(46)
Employee benefits	384	145
Allowance for doubtful debts	(83)	84
Depreciation of non-current assets:		
Property, plant and equipment	1,078	1,235
Amortisation of non-current assets:		
Leasehold improvements	258	(30)
Intellectual property	1,234	1,133
Development costs	13,218	10,627
Foreign exchange losses/(gains)	(89)	151
Employee benefits expense:		
Post employment benefits – defined contribution plans	3,017	2,790
Termination benefits	88	494
Share based payments:		
Equity-settled share-based payments	164	316
Cash-settled share-based payments	190	155
	354	471
Operating lease rental expenses:		
Minimum lease payments	2,416	2,151

# Notes to the Financial Statements (continued)

## 3 New market expenditure

	Consolidated	
	2015 \$'000	2014 \$'000
Marketing expenses	(1,129)	–
Employee benefits expense	(908)	–
Other expenses	(540)	–
Amortisation of other non-current assets	(3,271)	(1,720)
	(5,848)	(1,720)

Reckon Limited 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. Limited revenue has been recognised in these markets to-date. These expenses are expected to continue in future years but will be supplemented by additional revenue.

## 4 Income Tax

	Consolidated	
	2015 \$'000	2014 \$'000
<b>(a) Income tax expense recognised in profit and loss</b>		
Current tax	2,820	4,866
Deferred tax	1,612	893
Under /(over) provided in prior years	(718)	(655)
	3,714	5,104

<b>(b) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense/(income tax revenue) in the financial statements as follows:</b>		
<b>Profit before income tax</b>	18,795	22,672
Income tax expense calculated at 30% of profit	5,638	6,802
<b>Tax Effect of:</b>		
Effect of lower tax rates on overseas income	(450)	(261)
Tax effect of non-deductible/non-taxable items:		
Research and development claims	(699)	(646)
Sundry items	(57)	(136)
	4,432	5,759
Under/(over) provision in prior years	(718)	(655)
Income tax expense attributable to profit	3,714	5,104

The tax rate used for the 2015 and 2014 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

<b>(c) Future income tax benefits not brought to account as an asset:</b>		
Tax losses:		
Revenue	–	–
Capital	2,098	2,098
	2,098	2,098

These amounts have not been recognised as due to their capital nature the company is unable to determine with sufficient probability that they will be recoverable.

# Notes to the Financial Statements (continued)

## 5 Remuneration of Auditors

	Consolidated	
	2015 \$	2014 \$
<b>(a) Deloitte Touche Tohmatsu</b>		

During the year, the auditors of the parent entity earned the following remuneration:

Auditing and reviewing of financial reports	254,275	233,903
Tax compliance and other consulting services	355,814	79,239
	610,089	313,142

<b>(b) Other Auditors</b>		
Auditing and reviewing of financial reports	65,424	62,810
Tax compliance services	101,192	97,359
	166,616	160,169
	776,705	473,311

## 6 Inventories

	Consolidated	
	2015 \$'000	2014 \$'000

### Finished goods:

At lower of cost and net realisable value	2,471	2,179
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## 7 Trade and Other Receivables

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Current:</b>		
Trade receivables (i)	7,963	8,284
Allowance for doubtful debts	(311)	(562)
	7,652	7,722
Other receivables	1,675	1,687
	9,327	9,409
<b>Non current:</b>		
Trade receivables	108	608
Other receivables	60	70
	168	678

(i) The ageing of past due receivables at year end is detailed as follows:

Past due 0 – 30 days	1,291	1,462
Past due 31 – 60 days	480	988
Past due 61+ days	911	918
Total	2,682	3,368

The movement in the allowance for doubtful accounts in respect of trade receivables is detailed below:

Balance at beginning of the year	562	517
Amounts written off during the year	(168)	(39)
Increase/(reduction) in allowance recognised in the profit and loss	(83)	84
Balance at end of year	311	562

# Notes to the Financial Statements (continued)

## 8 Other Assets

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Current:</b>		
Prepayments	1,633	1,646
Other	523	479
	<u>2,156</u>	<u>2,125</u>
<b>Non current:</b>		
Prepayments	234	653
Other	1,116	458
	<u>1,350</u>	<u>1,111</u>

## 9 Other Financial Assets

Security deposits	17	56
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## 10 Property, Plant and Equipment

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Leasehold Improvements</b>		
At cost	2,663	2,613
Less: Accumulated amortisation	(2,371)	(2,110)
Total leasehold improvements	<u>292</u>	<u>503</u>
<b>Plant and equipment</b>		
At cost	9,471	8,527
Less: Accumulated depreciation	(7,278)	(6,243)
Total plant and equipment	<u>2,193</u>	<u>2,284</u>
	<u>2,485</u>	<u>2,787</u>

### Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year are set out below.

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Consolidated</b>			
Carrying amount at 1 January 2015	503	2,284	2,787
Additions	47	1,105	1,152
Depreciation/amortisation expense	(258)	(1,196)	(1,454)
Balance at 31 December 2015	<u>292</u>	<u>2,193</u>	<u>2,485</u>

<b>Consolidated</b>			
Carrying amount at 1 January 2014	435	2,844	3,279
Additions	38	743	781
Depreciation/amortisation expense	30	(1,303)	(1,273)
Balance at 31 December 2014	<u>503</u>	<u>2,284</u>	<u>2,787</u>

# Notes to the Financial Statements (continued)

## 11 Deferred Tax Assets

	Consolidated	
	2015 \$'000	2014 \$'000

The balance comprises temporary differences attributable to:

Doubtful debts	9	8
Employee benefits	117	100
Other provisions	67	77
	193	185

Details of unrecognised deferred tax assets can be found in note 4(c)

Reconciliation:

Opening balance at 1 January	185	127
Credited/(charged) to profit or loss	8	58
Balance at 31 December	193	185

## 12 Intangibles

Intellectual property – at cost (i)	17,251	17,251
Accumulated amortisation	(13,123)	(11,889)
	4,128	5,362
Development costs – at cost	96,343	77,901
Accumulated amortisation	(63,412)	(50,386)
	32,931	27,515
Internal systems – at cost	1,389	–
Accumulated amortisation	(302)	–
	1,087	–
Goodwill – at cost	51,157	49,502
	89,303	82,379

(i) The intellectual property carrying amount comprises of customer contracts of \$2,495 thousand (2014: \$3,114 thousand), brand names of \$562 thousand (2014: \$562 thousand) and other intellectual property of \$1,071 thousand (2014: \$1,686 thousand). The amounts amortised in the current year for customer contracts was \$619 thousand, brand names \$nil and other intellectual property \$615 thousand.

## 12 Intangibles (continued)

	Consolidated	
	2015 \$'000	2014 \$'000

### Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified based on how the businesses are managed and reported on and taking into account the use of shared resources, as follows:

Accountant Group	25,765	25,765
nQueue Division	2,785	2,508
Document Management Division	22,607	21,229
	51,157	49,502

In 2015 management started to assess goodwill at a higher level due to synergies around common resources. As a result the previous Professional Services (Australia and New Zealand), Elite and Reckon Docs CGUs were merged into the Accountant Group CGU, as these businesses are now managed and reported as one division and so are indistinguishable. The nQueue and Document Management CGUs remain unchanged.

The recoverable amount of a CGU is determined based on value-in-use calculations. Management has based the value in use calculations on the most recently completed board approved budget for the forthcoming one year (2016) period for the Accountant Group. The value –in-use calculations for the nQueue and Document Management CGUs have been based on the Group's four year plans. Subsequent cash flows are projected using constant long term average growth rates of 3% per annum for all CGUs. An average post-tax discount rate of 10.3% (2014: 10.5%) (pre-tax rate: 15%) reflecting assessed risks associated with CGUs has been applied to determine the present value of future cash flow projections for all CGUs. No impairment write-offs have been recognised during the year (2014: nil). Sensitivity analysis performed indicates that if a change in EBITDA reflected in the models were to decrease by up to 15% for the respective CGUs, there would be no impairment.

Consolidated movements in intangibles	Goodwill \$'000	Intellectual Property \$'000	Development Costs (including internal systems)	Total \$'000
At 1 January 2015	49,502	5,362	27,515	82,379
Additions	–	–	19,721	19,721
Effect of foreign currency exchange differences	1,655	–	–	1,655
Amortisation charge	–	(1,234)	(13,218)	(14,452)
At 31 December 2015	51,157	4,128	34,018	89,303
At 1 January 2014	48,810	6,288	22,750	77,848
Additions	–	207	15,392	15,599
Effect of foreign currency exchange differences	692	–	–	692
Amortisation charge	–	(1,133)	(10,627)	(11,760)
At 31 December 2014	49,502	5,362	27,515	82,379



# Notes to the Financial Statements (continued)

## 13 Trade and Other Payables

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Current:</b>		
Trade payables and sundry accruals (i)	5,508	4,604

(i) The credit period for the majority of goods purchased is 30 days. No interest is charged. The Group has policies in place to ensure payables are paid within the credit periods.

## 14 Borrowings

<b>Current:</b>		
Hire purchase liabilities	–	76

<b>Non-current</b>		
Bank borrowings (i)	49,900	43,400

(i) The consolidated entity has increased its bank facilities to \$59 million during the year to fund the acquisition of the remainder of Virtual Cabinet. This has been increased by a further \$8 million subsequent to year end. The facility comprises a variable rate bank overdraft facility, a loan facility, a bank guarantee facility and transactional facilities. The facility covers a 3 year term expiring on 31 January 2017 in respect of the loan facility and expiring on 30 April 2016 for the other facilities. The loan facility reduces by \$1.5 million on 30 September 2016, and then by \$1.5 million per quarter thereafter. The facility is secured over the net assets of the Group. Reckon has partially hedged the bank borrowings – refer note 15.

2015			
	Bank overdraft \$'000	Loan facility \$'000	Bank guarantee & transaction facility \$'000

The available, used and unused components of the facility at year end is as follows:

Available	1,000	55,000	3,110
Used	–	49,900	1,683
Unused	1,000	5,100	1,427

The remaining contractual maturity for the facility (including both interest and principal) is as follows:

0-12 months	–	–	1,683
13 months - 5 years	–	49,900	–
Weighted average interest rate	6.06%	4.03%	–

## 15 Other Financial Liabilities

	Consolidated	
	2015 \$'000	2014 \$'000
Linden House option liability: current (i)	–	6,838
Derivative that is designated and effective as a hedging instrument carried at fair value: non current (ii)	176	245

(i) This balance represented the present value of future payments arising in connection with the acquisition of the non-controlling interest in Linden House Software Limited (refer note 29(c), including future profit entitlements and the redemption price of put option instruments issued in respect of their remaining equity interest in the company. This liability has now been settled.

(ii) This balance represents an interest rate swap. To reduce the fair value risk of changing interest rates, the Group has entered into a pay-floating receive-fixed interest rate swap. The swap's notional principal is \$20 million and represents 40% of the bank borrowings outstanding at 31 December 2015. The swap reduces to \$15 million on 26 June 2016 and then matures on 31 January 2017. The fixed interest rate is 4.87%, and interest rate swaps are settled monthly. Within the context of AASB 7, this is classified as a level 2 fair value measurement being derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly.

## 16 Provisions

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Current:</b>		
Sales returns, volume rebates	116	56
Employee benefits	3,014	2,707
Surplus premises	34	201
Commissions and sundry provisions	489	342
	3,653	3,306

<b>Non-current:</b>		
Employee benefits	659	582

# Notes to the Financial Statements (continued)

## 16 Provisions (continued)

Movement in provisions				
Movements in each class of provision during the financial year, excluding employee benefits, are set out below:				
2015 Consolidated	Surplus premises \$'000	Sales returns, volume rebates \$'000	Commissions and sundry \$'000	Total \$'000
Carrying amount at the start of the year	201	56	342	599
Amounts paid	(76)	–	–	(76)
Additional provisions recognised/(utilised)	(91)	60	147	116
Carrying amount at the end of the year	34	116	489	639

## 17 Working Capital Deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of \$2,187 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. Net cash inflows from operations for the year were \$33,539 thousand (2014: \$31,287 thousand). Unused bank facilities at balance date total \$7,527 thousand. Also, included in current liabilities is deferred revenue of \$10,653 thousand (December 2014: \$9,715 thousand), settlement of which will involve substantially lower cash flows.

## 18 Deferred Tax Liabilities

Consolidated		
	2015 \$'000	2014 \$'000
The temporary differences are attributable to:		
Doubtful debts	(48)	(89)
Employee benefits	(1,397)	(1,346)
Sales returns and volume rebates	(35)	(14)
Deferred revenue	(462)	(596)
Difference between book and tax value of non-current assets	9,587	7,971
Other provisions	(967)	(868)
	6,678	5,058

Details of unrecognised deferred tax assets can be found in note 4(c)

Reconciliation:

Opening balance at 1 January	5,058	4,107
Charged (credited) to profit or loss	1,620	951
Balance at 31 December	6,678	5,058

# Notes to the Financial Statements (continued)

## 19 Parent Entity Disclosures

	Consolidated	
	2015 \$'000	2014 \$'000
<b>Financial position</b>		
Assets		
Current assets	8,427	5,298
Non-current assets	104,862	87,460
	113,289	92,758
Liabilities		
Current liabilities	8,917	13,972
Non-current liabilities	57,417	47,450
	66,334	61,422
Equity		
Share capital	16,929	17,036
Share buyback reserve	(42,018)	(42,018)
Swap hedging reserve	(176)	(245)
Share based payments reserve	638	582
Acquisition of non-controlling interest reserve	(1,657)	708
Foreign currency translation reserve	703	256
Retained earnings	72,536	55,017
	46,955	31,336
<b>Financial performance</b>		
Profit for the year	15,960	17,580
Other comprehensive income	703	256
Total comprehensive income	16,663	17,836
<b>Capital commitments for the acquisition of property, plant and equipment</b>		
Not longer than 1 year	–	–
<b>Other</b>		

Reckon Limited assets have been used as security for the bank facilities set out in note 14.  
The parent entity has no contingent liabilities.

## 20 Employee Benefits

	Consolidated	
	2015 \$'000	2014 \$'000
The aggregate employee benefit liability recognised and included in the financial statements is as follows:		
Accrued annual leave:		
Current (note 16)	1,573	1,369
Long term incentive:		
Current (note 16)	116	185
Non-current (note 16)	145	61
Provision for long service leave:		
Current (note 16)	1,325	1,153
Non-current (note 16)	514	521
	3,673	3,289

### Long-term incentive plan

The long-term incentive plan presently comprises two possible methods of participation: the grant of equity under a performance share plan; or cash payments under a share appreciation plan. The board has discretion to make offers to applicable employees to participate in these plans. Performance shares offered (all in respect of the company's ordinary shares) and/or share appreciation rights do not vest before three years after their grant date and are conditional on the participant remaining employed at vesting date, subject to board discretion. Vesting is also conditional upon the company achieving defined performance criteria. The performance criteria are based upon a total shareholder return (TSR) target. TSR is the return to shareholders over a prescribed period, being the growth in the company's share price plus dividends or returns of capital for that period.

For the performance period 2013-2015, the company's TSR target is the company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the board) over the same period. The initial comparator group was determined by independent advisers and was set out in the Chairman's speech at the Special General Meeting on 20 December 2005. The board reviews the suitability of the comparator group on an ongoing basis. 50% of performance shares or performance rights vest if the initial performance criterion is satisfied. The balance of any offer would vest proportionally on a sliding scale between the median and the third quartile with 100% vesting (capped) if the company's ranking equalled or exceeded the third quartile.

From 2011 onwards performance shares may also be offered with longer term vesting periods. The single vesting condition is that participants must remain employed for the term required. To achieve 100% vesting employees must remain in employment for an effective 10 years from the date of the initial offer.

The share appreciation rights plan represents an alternative remuneration element (to offering performance shares) under which the board can invite relevant employees to apply for a right to receive a cash payment from the company equal to the amount (if any) by which the market price of the company's shares at the date of exercise of the right exceeds the market price of the company's shares at the date of grant of the right. The right may only be exercised

# Notes to the Financial Statements (continued)

## 20 Employee Benefits (continued)

if the share price at the end of the performance period is greater than at the beginning of the performance period. The performance criteria for the rights to vest are fixed by the board in the exercise of its discretion. At present these are the same as the TSR target set for performance shares to vest and the same sliding scale applies.

For the performance period 2015-2017 the remuneration committee has changed the benchmark against which the TSR target is measured for both the performance share plan and the share appreciation rights plan. The comparator group of companies has been jettisoned and replaced by the company's TSR performance measured against the performance of the ASX 300 Index over the performance period.

Shares or rights will vest at the end of the performance period depending on the company's average TSR over the period relative to the average TSR of the ASX 300 Index. The percentage of shares or rights vested is determined by the proportional difference in these two results.

No options were issued during the year (2014: Nil).

747,036 (2014: 590,625) appreciation rights and 158,739 (2014:202,946) performance shares, were issued during the year. The fair value of these rights was 25.3 cents (2014: 32 cents) and the shares were \$1.701 (2014: \$1.672), using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of \$1.81; expected volatility of 20.7%; dividend yield of 5%; and a risk free rate of 3%. The expense recognised in 2015 for appreciation rights/performance shares was \$353,947 (2014: \$470,991).

Set out below are summaries of performance shares and appreciation rights granted under the long-term incentive plan:

Performance Shares								
Grant Date	Vesting Date	Shares Granted	Shares lapsed during the year		Shares vested during the year		Shares available at the end of the year	
			2015	2014	2015	2014	2015	2014
Jan'12	Dec'14	150,440	–	–	–	92,050	–	–
Jan'13	Dec'15	91,740	39,166	–	48,352	–	–	87,518
Jan'14	Dec'16	101,696	9,266	–	–	–	92,430	101,696
Jan'15	Dec'17	121,239	11,047	–	–	–	110,192	–
Jan'11	Dec'17	112,500	10,000	–	–	–	76,250	86,250
Jan'12	Dec'18	127,500	10,000	–	–	–	91,250	101,250
Jan'13	Dec'19	296,250	25,000	–	–	–	251,250	276,250
Jan'14	Dec'20	101,250	10,000	–	–	–	91,250	101,250
Jan'15	Dec'21	37,500	10,000	–	–	–	27,500	–

100,326 additional shares have been acquired for future grants.

Appreciation Rights								
Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year		Rights vested during the year		Rights available at the end of the year	
			2015	2014	2015	2014	2015	2014
Jan'12	Dec'14	396,825	–	–	–	396,825	–	–
Jan'13	Dec'15	549,419	230,756	–	318,663	–	–	549,419
Jan'14	Dec'16	590,625	–	–	–	–	590,625	590,625
Jan'15	Dec'17	747,036	–	–	–	–	747,036	–

### Short-term incentive plan

Each annual budget fixes a pool of cash representing a total potential amount in which the relevant employees can share if short term performance conditions are met.

The performance period for the short term incentive plan is one year. However, approximately one third of the payment will only be made if the employee remains in employment for a further one year period after the performance period.

The performance conditions are budgeted targets set for revenue, EBITDA and earnings per share. Actual performance is the measured on a sliding scale form 90% to 110% against the budgeted performance of the group to determine the extent to which incentives are paid. The incentive is paid on a sliding scale. Below 90% no incentive is paid. Between 90% and 110% a pro rata increase is paid, capped at 110%.

# Notes to the Financial Statements (continued)

## 21 Issued Capital

	2015		2014	
	No.	\$'000	No.	\$'000
<b>Fully Paid Ordinary Share Capital</b>				
Balance at beginning of financial year	112,084,762	18,842	126,913,066	18,842
Share buyback	–	–	(14,828,304)	–
Balance at end of financial year	112,084,762	18,842	112,084,762	18,842
<b>Less Treasury shares</b>				
Balance at beginning of financial year	765,714	1,806	850,243	2,024
Shares purchased in current period	116,115	215	–	–
Lapsed shares utilised	6,971	–	7,521	–
Shares vested	(48,352)	(108)	(92,050)	(218)
Balance at end of financial year	840,448	1,913	765,714	1,806
Balance at end of financial year net of treasury shares	111,244,314	16,929	111,319,048	17,036

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the then Corporations Law abolished the authorised capital and par value concepts in relation to share capital from 1 July 1998. Therefore the company does not have a limited amount of authorised capital and issued shares do not have a par value.

A selective off-market buyback of the 14,828,304 shares held by Intuit Inc. at a price of \$1.85 per share was concluded during 2014.

The shares bought back in 2014 were cancelled immediately.

During 2015 nil shares were bought back.

No options were exercised during the year.

## 22 Reserves

### Nature and purpose of reserves

#### (a) Foreign currency translation reserve

Exchange differences arising on translation of the financial reports of foreign subsidiaries are taken to the foreign currency translation reserve, as described in note 1(g).

#### (b) Swap hedging reserve

The swap hedging reserve represents the cumulative gains or losses arising on changes in the fair value of hedging instruments entered into. These gains or losses will be reclassified to profit or loss only when the hedged transaction affects profit or loss.

#### (c) Share buyback reserve

The value of shares bought back are allocated to this reserve.

#### (d) Share-based payments reserve

The share-based payments reserve is for the fair value of options granted and recognised to date but not yet exercised, and treasury shares purchased and recognised to date which have not yet vested.

#### (e) Acquisition of non-controlling interest reserve

The acquisition of non-controlling interest reserve represents an equity account to record transactions between equity holders.

## 23 Retained Earnings

	Consolidated	
	2015 \$'000	2014 \$'000
Balance at beginning of financial year	55,187	48,938
Net profit	14,577	16,964
Dividends (note 30)	(10,010)	(10,715)
Balance at end of financial year	59,754	55,187



# Notes to the Financial Statements (continued)

## 24 Earnings per Share

	Consolidated	
	2015 cents	2014 cents
Basic earnings per share	13.1	14.2
Diluted earnings per share	13.0	14.1
Weighted average number of ordinary shares used in the calculation of basic earnings per share	111,244,314	119,647,274
Weighted average number of ordinary shares and potential ordinary shares (in relation to employee performance shares) used in the calculation of diluted earnings per share	112,084,762	120,412,988

Earnings used in the calculation of earnings per share is \$14,577 thousand (2014: \$16,964 thousand).

## 25 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2015 (2014: Nil).

## 26 Commitments for Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2015 (2014: \$nil).

	Consolidated	
	2015 \$'000	2014 \$'000
<b>(b) Lease Commitments</b>		
<b>Operating Leases</b>		
Within 1 year	2,096	2,160
Later than 1 year and not longer than 5 years	3,183	4,840
Later than 5 years	194	–
	5,473	7,000

Operating leases relate to office and warehouse premises with lease terms of between 1 to 7 years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

## 27 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2015 %	2014 %
Parent Entity			
Reckon Limited	Australia		
Subsidiaries			
Reckon.com.au Pty Limited	Australia	100	100
Reckon Australia Pty Limited	Australia	100	100
Reckon Investment Centre Limited	Australia	100	100
Reckon Online Holdings Pty Limited	Australia	100	100
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Reckon Accountant Group Pty Limited	Australia	100	100
Reckon Accountant Group Limited	New Zealand	100	100
Reckon One Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
Quickdocs.com.au Pty Limited	Australia	100	100
Reckon Billback Pty Limited	Australia	100	100
nQueue Billback Limited	United Kingdom	100	100
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	100	100
Reckon Software Limited (formerly Linden House Software Limited)	United Kingdom	100	70
Reckon Accounts Pte Limited	Singapore	100	100
Reckon Sync Technology Pty Ltd	Australia	100	100

All shares held are ordinary shares.

# Notes to the Financial Statements (continued)

## 28 Related Party Disclosures

	Consolidated	
	2015	2014
	\$	\$
<b>(a) Key Management Personnel Remuneration</b>		
Short term benefits	3,204,159	3,434,194
Post-employment benefits	191,362	181,673
Share based payments	290,473	365,711
	3,685,994	3,981,578

The names of and positions held by the key management are set out on page 32 of the Remuneration Report. Further details of the remuneration of key management are disclosed in the Remuneration Report.

### (b) Other Transactions with Key Management Personnel

There were no transactions with directors and other key management personnel apart from those disclosed in this note.

### (c) Directors' and Key Management Equity Holdings

Refer to the table on page 36 of the Remuneration Report.

## 29 Notes to the Statement of Cash Flows

	Consolidated	
	2015	2014
	\$'000	\$'000
<b>(a) Reconciliation of Cash</b>		
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash (i)	1,641	2,248
Bank overdraft	–	–
	1,641	2,248

(i) Cash balance is predominantly in the form of short-term money market deposits, which can be accessed at call.

### (b) Reconciliation of Profit After Income Tax To Net Cash Flows From Operating Activities

Profit after income tax	15,081	17,568
Depreciation and amortisation of non-current assets	15,788	12,965
Non-cash employee benefits expense – share based payment	164	316
Increase/(decrease) in current tax liability/asset	(1,296)	(1,867)
Increase/(decrease) in deferred tax balances	1,612	893
Unrealised foreign currency translation amount	(106)	51
(Increase)/decrease in assets net of acquisitions:		
Current receivables	82	1,589
Current inventories	(292)	(433)
Other current assets	(31)	166
Non-current receivables	510	516
Non-current other	(239)	(512)
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	904	(90)
Other current liabilities	1,285	265
Other non-current liabilities	77	(140)
<b>Net cash inflow from operating activities</b>	<b>33,539</b>	<b>31,287</b>

# Notes to the Financial Statements (continued)

## 29 Notes to the Statement of Cash Flows (continued)

### (c) Business acquired

Linden House Software Limited

The final payment for Linden House of \$9 million was made during the year.

## 30 Dividends – Ordinary Shares

	Consolidated	
	2015 \$'000	2014 \$'000
Final dividend for the year ended 31 December 2014 of 4.75 cents (2013: 4.75 cents) per share franked to 60% paid on 5 March 2015	5,284	5,988
Interim dividend for the year ended 31 December 2015 of 4.25 cents per share franked to 60% (2014: 4.25 cents) paid on 9 September 2015	4,726	4,727
	10,010	10,715
Franking credits on a tax paid basis available for subsequent financial years based on a tax rate of 30% (2014: 30%)	31	1,112

## 31 Financial Instruments

### (a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

### (b) Financial Risk Management Objectives

The Board of Directors has overall responsibility for the establishment and oversight of the company and group's financial management framework.

The Board of Directors oversees how Management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks. The main risk arising from the company and group's financial instruments are currency risk, credit risk, equity price risk, liquidity risk and cash flow interest rate risk.

### (c) Interest Rate Risk

The group is exposed to interest rate risk on the cash held in bank deposits and on bank borrowings. Cash deposits of \$1,641 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.7% (2014: 0.7%). Interest bearing borrowings by the consolidated entity at the reporting date were \$49,900 thousand (2014:\$43,400 thousand). Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Variable rate borrowings during the year attracted an average interest rate of 6.1% (2014: 6.5%) on overdraft facilities and 4.0% on bank bill facilities (2014: 4.6%). If interest rates had been 50 basis points higher or lower (being the relevant volatility considered relevant by

management) and all other variables were held constant, the group's net profit would increase/decrease by \$241 thousand (2014: \$219 thousand).

Hedging activities are evaluated to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The maturity profile for the consolidated entity's cash (\$1,641 thousand) that is exposed to interest rate risk is one year, and interest bearing borrowings (\$49,900 thousand) that are exposed to interest rate risk, and the interest rate swap is 1 year and one month. On the assumption that interest bearing borrowings and variable interest rates remain at the current level, the annual interest costs are expected to be \$2.0 million.

Further details are set out in note 14.

### (d) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

The average credit period on sale of goods is 45 days. Interest is generally not charged. The group recognises an allowance for doubtful debts comprising a specific component for expected irrecoverable amounts, and a general provision calculated as a % of outstanding balances based upon the historical experience.

### (e) Foreign Currency Risk

The consolidated entity and company undertakes certain transactions denominated in foreign currencies that are different to the functional currencies of the entities undertaking the transactions, hence exposures to exchange rate fluctuations arise. The Board of Directors monitors these exposures and does not presently hedge against this risk.

The carrying amount of the consolidated entity's foreign currency denominated monetary assets and liabilities at the reporting date that are denominated in a currency that is different to the functional currency of respective entities undertaking the transactions is as follows:

	Consolidated			
	Liabilities		Assets	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Euro	–	–	30	31
Pounds	–	3,590	–	–

# Notes to the Financial Statements (continued)

At 31 December 2015, if the Euro weakened against the UK Pound by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by \$3 thousand (2014: \$3 thousand). At 31 December 2015, if the Pound weakened against the Australian Dollar by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by \$nil (2014: \$nil), as fair value adjustments are taken to the acquisition of non-controlling interest reserve. At 31 December 2015, if the New Zealand Dollar, US Dollar and UK Sterling weakened against the Australian Dollar by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by \$865 thousand (2014: \$775 thousand). This latter sensitivity relates to inter-group loan balances denominated in Australian Dollars, which are eliminated on consolidation.

In Management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year-end exposure does not necessarily reflect the exposure during the course of the year. The consolidated entity includes certain subsidiaries whose functional currencies are different to the consolidated entity presentation currency. The main operating entities outside of Australia are based in New Zealand, United States of America and the United Kingdom. These entities transact primarily in their functional currency and, aside from inter-group loan balances, do not have significant foreign currency exposures due to outstanding foreign currency denominated items. As stated in the consolidated entity's accounting policies per Note 1, on consolidation the assets and liabilities of these entities are translated into Australian Dollars at exchange rates prevailing at year end. The income and expenses of these entities is translated at the average exchange rates for the year. Exchange differences arising are classified as equity and are transferred to a foreign exchange translation reserve. The consolidated entity's future reported profits could therefore be impacted by changes in rates of exchange between the Australian Dollar and the New Zealand Dollar, and the Australian Dollar and the US Dollar and the Australian Dollar and the UK Sterling.

## (f) Liquidity

The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cash flows.

Further details are set out in notes 14 and 15.

## (g) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the Group consists of cash, other financial assets, debt and equity attributable to equity holders of the parent. The Board reviews the capital structure on a regular basis. Based upon this review, the Group balances its overall capital structure through borrowings, the payment of dividends, issues of shares, share buy-backs and returns of capital. This strategy remains unchanged since the prior year.

## (h) Fair Value

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 carrying amount of financial assets and financial liabilities recorded in the financial report approximates their respective fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

# 32 Segment Information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

## (a) Business segment information

The consolidated entity is organised into three operating divisions:

### Business Group

### Accountant Group

### International Group

These divisions are the basis upon which the consolidated entity reports its financial information to the chief operating decision maker, being the Board of Directors.

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.
- Accountant Group - development, distribution and support of practice management, tax, client accounting and related software under the APS brand as well as the ReckonDocs and Reckon Elite products.
- International Group – development , distribution and support of cost recovery, cost management and related software under the nQueue Billback brand and document management and client portal products under the Virtual Cabinet brand.

Segment revenues and results	2015 \$'000	2014 \$'000
Operating revenue		
Business Group	35,430	36,828
Accountant Group	47,429	46,225
International Group	22,266	17,721
	105,125	100,774
Other revenue	43	21
Total revenue	105,168	100,795

# Notes to the Financial Statements (continued)

## 32 Segment Information (continued)

	2015 \$'000 EBITDA	2015 \$'000 D&A	2015 \$'000 NPBT	2014 \$'000 EBITDA	2014 \$'000 D&A	2014 \$'000 NPBT
Business Group	19,138	(2,118)	17,020	19,179	(1,393)	17,786
Accountant Group	16,732	(6,731)	10,001	16,455	(6,717)	9,738
International Group	8,191	(3,668)	4,523	6,106	(3,135)	2,971
	44,061	(12,517)	31,544	41,740	(11,245)	30,495
New market expenditure			(5,848)			(1,720)
Central administration costs			(4,853)			(4,635)
Other revenue			43			21
Finance costs			(2,091)			(1,489)
<b>Profit before income tax</b>			18,795			22,672
Income tax expense			(3,714)			(5,104)
<b>Profit for the year</b>			15,081			17,568

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, new market expenditure, 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.

No single customer contributed 10% or more of Group revenue for either 2015 or 2014.

EBITDA above means earnings before interest, depreciation and amortisation, D&A means depreciation and amortisation, and NPBT means net profit before tax.

## 32 Segment Information (continued)

	Assets		Liabilities		Additions to non-current assets	
Segment assets and liabilities	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Business Group	18,614	20,631	5,706	10,073	8,989	7,803
Accountant Group	44,983	46,185	4,534	5,452	6,119	5,530
International Group	42,576	44,459	10,233	22,281	4,376	3,047
Corporate Division	4,970	–	56,754	43,400	1,389	-
Total of all segments	111,143	111,275	77,227	81,206	20,873	16,380
Eliminations	–	(7,382)	–	(7,382)	–	-
Consolidated	111,143	103,893	77,227	73,824	20,873	16,380

### (b) Geographical information

	Revenues from external customers		Non-current assets	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Australia	76,282	76,708	53,961	47,215
United Kingdom	12,784	10,003	27,280	24,281
Other countries (i)	16,059	14,063	12,275	15,700
	105,125	100,774	93,516	87,196

(i) No other country is considered to generate revenues which are material to the group.



# Notes to the Financial Statements (continued)

## 33 Subsequent Events

Subsequent to the end of the financial year:

### Dividend

On 9 March 2016, the board declared a final unfranked dividend of 3 cents per share payable to shareholders recorded on the company's register as at the record date of 17 March 2016.

For the final dividend Reckon also implemented a dividend re-investment plan inviting shareholders to participate at a price representing a discount of 12.5% to the VWAP price for the period of 7 trading days commencing on the date 2 trading days after the record date.

At the date of this report it is not possible to estimate the aggregate amount of the dividend as the company does not know the extent to which the dividend re-investment plan will be taken up by shareholders. If no shareholders take up the dividend re-investment plan, the aggregate amount of the proposed dividend would be \$3,362 thousand.

### SmartVault acquisition

Effective 1 January 2016, Reckon Limited acquired SmartVault Corporation. SmartVault is a USA based cloud document management business. SmartVault complements the existing Virtual Cabinet business, and provides a springboard into the USA document management market.

## 34 Company Information

Reckon Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

- Level 12, 65 Berry Street  
North Sydney  
Sydney NSW 2060

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the Directors' Report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 29 March 2016.

# Additional Information as at 14 March 2016 (Unaudited)

## Twenty Largest Holders of Quoted Equity Securities

Ordinary Shareholder	Number	Percentage
HSBC Custody Nominees (Australia) Limited	14,147,719	12.62
RBC Investor Services Australia Nominees Pty Limited	11,427,921	10.20
National Nominees Limited	11,335,293	10.11
JP Morgan Nominees Australia Limited	7,592,981	6.77
Mr Gregory Wilkinson	6,147,800	5.48
Citicorp Nominees Pty Ltd	5,622,629	5.02
Mr Clive Rabie & Mrs Kerry Rose Rabie	5,000,000	4.46
DJZ Investments Pty Ltd	4,690,000	4.18
BNP Paribas Noms Pty Ltd	3,392,810	3.03
USB Nominees Pty Ltd	2,862,305	2.55
RBC Investor Services Australia Nominees Pty Limited	2,818,561	2.51
BNP Paribas Noms Pty Ltd	2,211,316	1.97
National Nominees Limited	1,816,780	1.62
Mr Stephen James Rickwood	1,401,062	1.25
Rawform Pty Ltd	1,342,200	1.20
CS Fourth Nominees Pty Limited	1,218,817	1.09
Mr Clive Alan Rabie	1,068,000	0.95
Mr Philip Ross Hayman	869,542	0.78
Reckon Australia Pty Ltd	724,333	0.65
RBC Investor Services Australia Nominees Pty Limited	645,252	0.58
	<b>86,335,321</b>	<b>77.03</b>

## Number of Holders of Equity Securities

### Ordinary Share Capital

112,084,762 fully paid ordinary shares are held by 3,620 individual shareholders as at 14 March 2016. All issued ordinary shares carry one vote per share.

### Shareholdings less than marketable parcels

The number of shareholdings held in less than marketable parcels is 138.

# Additional Information as at 14 March 2016 (Unaudited) (continued)

## Distribution of Holders of Equity Securities

As at 14 March 2016

Number of Ordinary Shares	Number of Shareholders
1 – 1,000	1,017
1,001 – 5,000	1,712
5,001 – 10,000	480
10,001 – 100,000	365
100,001 and over	46
Total	3,620

## Substantial Shareholders

As at 14 March 2016

(a) From Twenty Largest holders of Quoted Equity Securities

	Ordinary Shares	Ordinary Shares
HSBC Custody Nominees (Australia) Limited	14,147,719	12.62%
RBC Investor Services Australia Nominees Pty Limited	11,427,921	10.20%
National Nominees Limited	11,335,293	10.11%
JP Morgan Nominees Australia Limited	7,592,981	6.77%
Mr Clive Alan Rabie	10,758,000	9.60%
Mr Gregory Wilkinson	7,490,000	6.68%

(b) As disclosed to ASX

	Ordinary Shares	Ordinary Shares
Perpetual Limited and Subsidiaries	16,792,183	14.98%
Highclere International Investors	7,127,328	7.38%
Australian Ethical Smaller Companies Trust	5,694,133	5.08%

## Principal Registered Office

Level 12, 65 Berry Street  
North Sydney NSW 2060  
Tel: (02) 9577 5000  
www.reckon.com

## Principal Administration Office

Level 12, 65 Berry Street  
North Sydney NSW 2060  
Tel: (02) 9577 5000

## Share Registry

Computershare Investor Services Pty Limited  
Level 3, 60 Carrington Street  
Sydney NSW 2000  
Tel: (02) 8234 5000

## Stock Exchange Listings

Reckon Limited's ordinary shares are listed on the Australian Securities Exchange Limited under the symbol 'RKN'.

## Auditors

Deloitte Touche Tohmatsu  
225 George Street  
Sydney NSW 2000

## Company Secretary

Mr Myron Zlotnick

## Annual General Meeting

The Annual General Meeting for Reckon Limited will be held on **Wednesday 25 May 2016 at 10:00am** at **Level 12, 65 Berry Street, North Sydney, NSW**. If you are unable to attend, you are invited to complete the Proxy Form included with your Notice of Meeting. The completed Proxy Form must be received no later than 48 hours before the Annual General Meeting.

## Additional Information as at 14 March 2016 (Unaudited) (continued)

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### Important Information – Corporate Notices

Security holders have the option as to how they receive statutory corporate notices and reports. In the interest of cost saving and the environment (every little bit helps), we encourage you to opt in to receive all notices and reports electronically.

Please go to: [www.computershare.com.au](http://www.computershare.com.au) and follow the prompts to register your request to opt in to receive TO RECEIVE ALL NOTICES AND REPORTS IN ELECTRONIC FORMAT.

To register to be notified by email when the Annual Report and other Announcements are available online:

- Visit the share registry at [www.computershare.com](http://www.computershare.com)
- Click on “Investor Centre”
- Follow the prompts to update your “Communications Options”
- After you have updated your email address and selected the publications you wish to receive, a confirmation email will be sent to you

Should you have any further enquiries, contact the Registry on 1300 855 080 or +61 3 9415 4000 (if outside Australia).

Alternatively, email your full name and address of the securityholder to [shareholders@reckon.com](mailto:shareholders@reckon.com) to receive the Annual Report, corporate and statutory notices electronically.



Reckon