

Chairman's Speech
for
Annual General Meeting of
Reckon Limited
Held at 10am on 26 May 2006

35 Saunders Street
Pymont NSW 2009

By now most of you will be familiar with the results we released for our 2005 financial year ending 31 December 2005. So I won't spend too much time repeating the detail.

I will, however, briefly recap on the important performance indicators of the last four years to give shareholders an indication of the very strong foundation the company has built for potential future growth.

If we look at all the key indicators the trend is extremely encouraging in a competitive market.

It is also pleasing that growth for 2005 was primarily organic. This contributed to growth in margins across the board. And as a group recurring revenue went up from 51% in 2004 to 53% in 2005. APS' recurring revenue went up from 49% in 2004 to 53% in 2005.

The business model on the QuickBooks side of the business continues to have an excellent drop through to the bottom line on relatively small revenue growth. It is a relatively mature business with steady growth, so sales drop through very nicely.

The APS results continue to impress. Profit before tax grew by 23% on 2004 and sales grew by 26% on 2004. This is especially pleasing in a market where pricing has not always been rational. APS has always been committed to delivering excellence and will not compromise on that for the sake of discount. Although it is still in a growth phase and does not enjoy the same drop through that the QuickBooks business does, it is an important part of our growth potential.

The down side to the APS success and it is a luxury problem to have, is that the success of the APS acquisition has set the bar very high for future deals.

We are extremely circumspect about potential targets. Candidly we have seen very little out there that matches the APS set up, but we are looking.

We have thus reached the point where the relative maturity of the business and our balance sheet afford us the luxury of being able to rationally take stock and assess the road ahead.

Traditionally we have tended to be cautious about our future and we will continue to be so. We recognise that for some investors being over cashed and under geared is not an attractive investment. For many there is a different investment philosophy. We recognise this diversity and for

reasons of our history have tended to be conservative with our use of cash but we have also paid in excess of \$13 million to shareholders over the last year. So our financial matrix is extremely sound. We remain debt free, cash rich with strong cash flows and have had strong organic growth.

But our business is not only about cash management. We have perhaps understated the strategic acquisitions and alliances we have done over earlier this year as part of our future strategy of expanding our product range and service offerings to our vast customer base.

In February, we completed the acquisition of the technology and customer base of Desktop Super. Desktop Super is a best of breed software that assists accountants and other professionals in the administration, management and accounting for superannuation. Super Choice legislation is driving consumer demand for this sort of product.

In February we signed an exclusive distribution agreement for the Superlink Hub product. This product is designed to assist payroll professionals to administer and manage employees Super Choice payments to funds. It is integrated into QuickBooks to make these tasks simpler. We also have an option exercisable within the next three years to purchase the technology outright.

In March we completed the acquisition of the technology and customer base of Elite. Elite develops and distributes tax return preparation tools used by hundreds of accountants and tax agents in public practice who submit approximately one million tax returns per year. The Elite Tax product historically formed part of the APS suite of products and will continue to do so. I should note that our existing tax product development will be used on the APS side of the business for our top end of the market customers. It is anticipated that the product tools will also be made available to QuickBooks small business and Quicken personal customers, thereby exposing the product to a substantially larger customer base. Reckon has 400,000 registered QuickBooks small business customers and 290,000 registered Quicken personal customers.

In addition the Elite product range also includes ledger, fixed asset and rental property modules which again are complementary to the existing small to medium business product range.

Almost 3 months later I am pleased to report that the transition and integration of these businesses has progressed well. We are now poised to pursue cross selling opportunities.

We have recently re-negotiated an exclusive three year rolling distribution agreement for AdvanceDocs, a document management system integrated with the APS suite and with roll out potential to all our newly acquired Elite customers.

We are also looking at driving harder to sell other connected services such as online back up, debt collection, and payment gateway services.

Collectively these transactions provide complementary products for APS and QuickBooks products with potential revenue growth for services associated with the use of the software.

Shareholders perhaps need reminding or indeed clarification of what our key strengths are.

In the first place we have the significant benefit of more than US\$300 million spent by Intuit Inc on product research and development on the QuickBooks and Quicken side of the business. We can pick and choose from a wide range of products built according to bleeding edge technology on the very latest dot net platform.

Our development cost is risk free in that it is only incurred as a royalty payment to Intuit Inc when we actually receive revenue for products sold.

Also the royalty percentage declines when a certain threshold of sales is reached.

We have all the benefits of intellectual property development without any of the risk associated with ownership.

Our strength here is fortified by our exclusive evergreen ten year licensing agreement with Intuit Inc. We view this position as giving the company a distinct competitive advantage in the SME market.

In 2005 we expanded the QuickBooks range with Easy Start and changed CashBook to Home and Business and looking to 2007 we hope to see an SQL version of QuickBooks. An SQL version of QuickBooks means that as businesses grow and the user demand on the software increases they can still use QuickBooks.

Secondly we have developed a very high standard of cost efficient local development to produce an outstanding Australian product. Our customers thus have the best of both worlds when it comes to technology: a world beater localised by Australians for Australians.

The same can be said for the APS products. When we acquired APS a key factor was the quality of the technology, something which Intuit Inc also recognised in their informal appraisal of the deal. Of course the product continues to be developed according to the very highest standards on a single data base that integrates comfortably with all the APS applications. This also gives the group a competitive advantage in the professional accounting market. Customer surveys support this claim.

APS' technological superiority also has peer recognition by being awarded Gold Certified Partner status by Microsoft. This is Microsoft's highest partner level and the award underlines APS' position among the first rank of development houses. The award ensures that APS will receive the earliest possible access to Microsoft's newest tools and development technologies.

We recognise the importance of our professional services group. This group comprises a range of accounting and other industry professionals through whose recommendation we sell products to end users. We have recently restructured the group to try and maximise sales through this channel and evangelize our network on the technological superiority of our QuickBooks products.

The 2006/07 product launch for QuickBooks took place in April. We are the only product available this year - as far as we can tell – released in time for the end of the tax year.

APS' suite for 2006/07 now includes a customer relations management system, Desktop Super (as previously mentioned) and Elite practice management and tax solutions.

On the Quicken side of the business we see great potential for growth, especially in wealth management products. Australians are market and investment savvy and with an ever increasing range of financial products (Super Choice by way of one significant example) there is demand for personal wealth management software. While revenues from Quicken only account for a very small percentage of total revenues, it represents 86% market share and we will continue to focus on growing this side of the business.

We have now cemented all of this together by formalising the business structure divisionally into Professional Business, SMB Business and Wealth Management.

And we have restructured the management of the business by appointing Greg Wilkinson, founder of the business, to the position of Deputy Chairman and Clive Rabie, previously COO, to the position of Group CEO. Greg will direct strategy for acquisitions and growth and product development while Clive assumes P and L responsibility for the group. Gavin Dixon has been appointed CEO of the QuickBooks and Quicken business. He is now charged with the focus of increasing our already improving market share in that space. Brian Armstrong is now in his third year running APS as part of the Reckon group.

Finally I am pleased to report that the board today formalised its dividend policy at a target payout ratio of 60% – 70% of NPAT, payable in all likelihood in the form of interim and final dividends in 2007.

As in the past we are not going to provide express guidance. We are less than five months into our year and about to hit our peak selling period, which will run until August. It would not be appropriate therefore to provide guidance at this early stage. We can, however, say that to date we have continued to gain market share in retail, up about 2% on this time last year.

In sum Reckon is an extremely neat company that has an efficient business model with excellent management and a plan for growth.

I thank you for your support and I thank management for their commitment and excellence.

2005 Highlights

	2002	2003	2004*	2005
Revenue	\$23.5m	\$24.7m	\$36.6m	\$42.3m
% Growth	-	5%	48%	16%
EBITDA (pre R&D and Royalties)	\$9m	\$10m	\$13m	\$16m
Margin	38%	43%	36%	38%
NPBT	\$2.3m	\$5.3m	\$7.4m	\$9.3m
Margin	10%	22%	20%	22%
% Growth	-	135%	38%	26%
EPS (before tax)	1.8c	4.2c	5.3c	6.7c
Growth	-	133%	26%	26%
Operating cash flow	\$2.5m	\$5.7m	\$8.7m	\$12.6m
Growth	-	128%	53%	44%

* APS acquired effective end of January 2004

New Structure

