

# Reckon Limited Annual Report

ABN 14 003 348 730

for the Financial Year Ended 31 December 2011

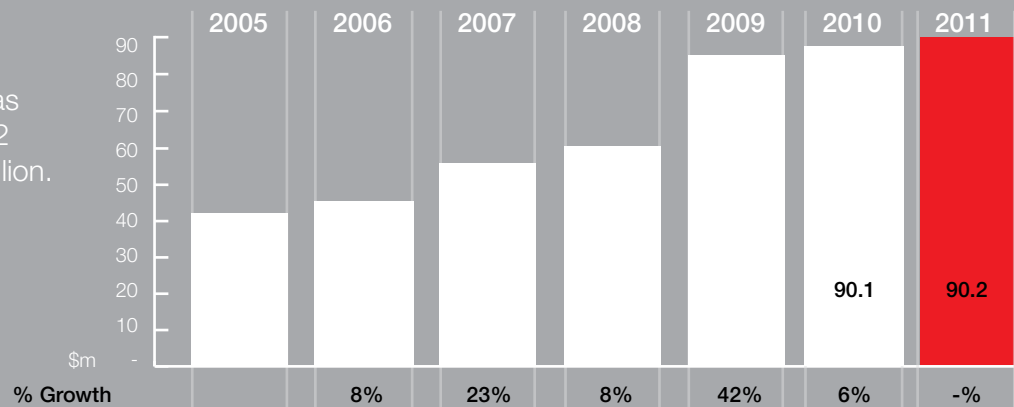
## Contents

Our results at a glance	2
Message to shareholders from the Chairman and the Group CEO	3
Directors' Report	6
Remuneration Report	10
Corporate Governance Report	18
Auditor's Independence Declaration	22
Auditor's Report	23
Financial Report	25
Directors' Declaration	25
Consolidated Income Statement	26
Consolidated Statement of Comprehensive Income	27
Consolidated Statement of Financial Position	28
Consolidated Statement of Changes in Equity	29
Consolidated Statement of Cash Flows	30
Notes to the Financial Statements	31
Additional Information	65

# Our results at a glance

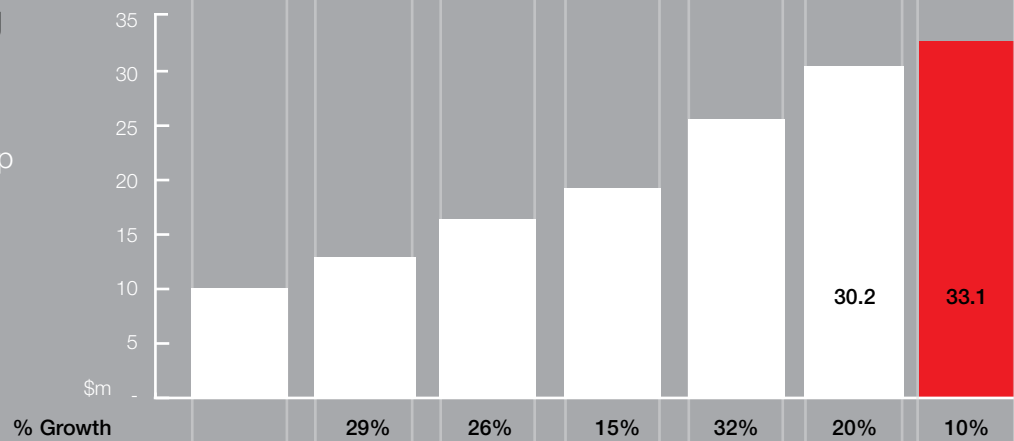
## Operating Revenue

Operating revenue was up marginally to \$90.2 million from \$90.1 million.



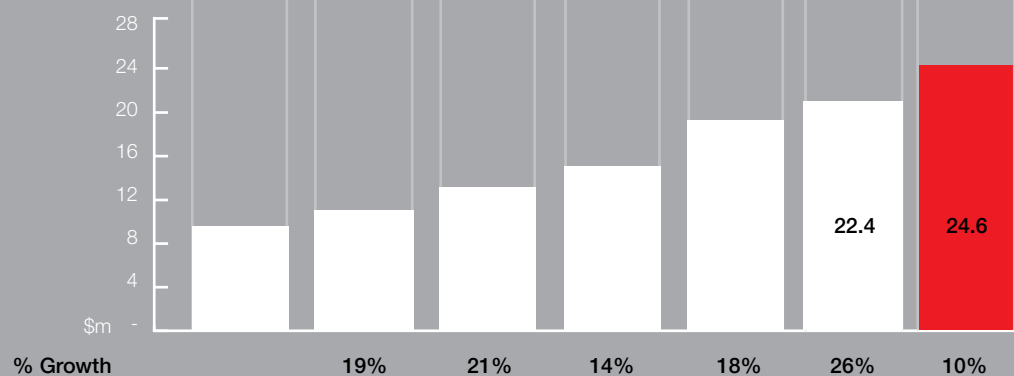
## EBITDA

Group EBITDA was up 10% to \$33.1 million\* from \$30.2 million.



## NPBT

Group NPBT was up 10% to \$24.6 million\* from \$22.4 million.



\*Non-IFRS

# Message to shareholders from the Chairman and Group CEO

## Overview

We are pleased to present the financial results for Reckon Limited for the year ending 31 December 2011.

The company has once again reported an excellent result for the year. This is despite a lack of consumer confidence and difficult economic conditions globally that have contributed to what has been perceived by many to be a difficult year.

In these conditions, the company performed remarkably well reporting a 10% increase in EBITDA and a consequent improvement in EBITDA margins from 33% in 2010, to 37% in 2011. This is based on growth in core business revenue and a focus on cost control.

Reckon Limited's performance pedigree over the last 5 years, as can be seen in "Our results at a glance" on the adjoining page, demonstrates stability and quality in service, products and financial management of the business. In fact, since 2001, all key performance areas for the company have trended upwards.

It is our belief that Reckon Limited has consistently delivered good results based on a measured yet flexible strategy with a view to maintaining a sustainable business to ensure returns for shareholders.

On that note, please find the full year financial results for 2011 herein, as well as details on Reckon Limited's plans for the future, especially in relation to how the company is continuing to expand into the cloud.

## Key metrics

### Performance

The table below sets out some key performance indicators for 2011 compared to 2010, firstly the non-IFRS reported results and secondly as IFRS results.

<b>Non-IFRS Revenue*</b>	<b>2011</b>	<b>2010</b>	<b>% Change</b>
Revenue	\$91.3 million	\$90.3 million	1% up
EBITDA (Non IFRS, excluding relocation)	\$33.1 million	\$30.2 million	10% up
NPAT (Non IFRS, excluding relocation)	\$18.3 million	\$17.2 million	6% up
EPS (Non IFRS, excluding relocation)	13.4 cents	12.4 cents	8% up

<b>IFRS Revenue</b>	<b>2011</b>	<b>2010</b>	<b>% Change</b>
Revenue	\$91.3 million	\$90.3 million	1% up
EBITDA	\$31.3 million	\$30.2 million	4% up
NPAT	\$16.7 million	\$17.2 million	3% down
EPS	12.1 cents	12.4 cents	2% down

\* Accounting standards require that provision be made for the expected shortfall in the sub-lease of Pyrmont premises. The net savings from the move to the new North Sydney premises will more than offset this cost over the period of the lease.

# Message to shareholders from the Chairman and Group CEO continued

## Dividend

On 6 February 2012, the Board declared a final dividend of 4.5 cents per share (4.5 cents per share in 2010). The dividend was 90% franked. The interim dividend announced on 8 August 2011 was 3.5 cents per share, franked to 90%.

## Divisional Performance

The table below sets out the reported performance of each division compared to 2010.

	Operating Revenue	% change on 2010 Revenue	EBITDA	% change on 2010 EBITDA
Business Division	\$55.8 million	- flat	\$20.6 million	1% down
Professional Division	\$25.6 million	3% up	\$12.3 million	20% up
nQueue Billback Division	\$8.8 million	6% down	\$3.5 million	8% down

The group was adversely impacted by foreign exchange rates during the year. The table below sets out the reported performance of each division compared to 2010, excluding the impacts of foreign exchange.

	Operating Revenue	% change on 2010 Revenue	EBITDA	% change on 2010 EBITDA
Business Division	\$55.8 million	- flat	\$20.6 million	- flat
Professional Division	\$25.6 million	5% up	\$12.3 million	21% up
nQueue Billback Division	\$8.8 million	5% down	\$3.5 million	3% up

In the Business Division it was encouraging to see the growth in enterprise and online/hosted products sales. We are also pleased to see a significant growth in market share in the retail channel. Predictably the Business Division was negatively impacted by a weaker retail channel, however, revenue growth for the year in direct sales grew in Australia by 6%. The division's results were also somewhat impacted by the very strong result for New Zealand in 2010 as a consequence of significant changes to the tax system, which were not repeated in 2011.

The Professional Division's performance was highlighted by a particularly good result in Australia for the year, growing EBITDA by 24% and combined with substantially improved performances in the second half in both New Zealand and United Kingdom. A key factor in this division is the excellent returns delivered by strong new product sales to both new clients and existing clients, which in turn adds to the maintenance revenue base each year.

For the nQueue Billback Division a substantially improved second half performance in the UK mitigated some of the negative impact of foreign exchange rates. As with the Professional Division, encouraging signs are found in sales to new customers and increasing market share.

... but our story is about much more than just the numbers.

## Towards Integration

For several years we have emphasised that Reckon Limited's integrated product offering is one of our distinguishing features that sets us apart in the competitive landscape.

Reckon Limited's traditional range of products, we think, tick all the boxes when it comes to reliability, ease of use, integration, and collaboration both with QuickBooks and Reckon Elite accounting products in the Business Division, and with APS products in the Professional Division. Plus, that integration also happens across the divisions with the ability to seamlessly send data from QuickBooks into APS practice management solutions, for example. Thereby providing clients with significant efficiency gains.

In recent years, we have seen a growing demand for mobile/remote access to services and a demand to shift the supply of all services, including infrastructure, platforms, solutions and applications to the cloud. It is worth noting that the concept of the cloud is nuanced and carries different meanings in different technological contexts, including references to SaaS (Software as a Service) and IaaS (Infrastructure as a Service).

In the Business Division, in late 2010 we first met the demand for cloud solutions with the introduction of QuickBooks, hosted by Reckon Online. Subsequently, we introduced a second online solution, CashBook Online. Right now our focus is on an online practice management solution, Reckon Elite Online, as well as an online point of sale solution, Reckon Retail POS Online.

In 2011, the Professional Division completed the development of the APS Private Cloud product. The release of APS Private Cloud is an important addition to our range of online solutions, and demonstrates Reckon Limited's commitment to delivering products and services that meet the changing expectations of our clients today and in the years ahead.

And in the nQueue Billback Division the 2012 development roadmap includes plans for taking cost recovery and expense management solutions into the cloud.

What is significant, way beyond the individual development of online or cloud products that add to the stable of our products, is the fact that we have been using a common development platform with close collaboration between the various product management and development teams to ensure that all products fit into what we term the Reckon "ecosystem".

The Reckon ecosystem brings together all our traditional and new applications, whether on a desktop, on premises or in the cloud, in a single environment where they integrate to improve collaboration between businesses, accountants, banks, government agencies and other stakeholders.

We are already garnering interest from large accounting firms looking to exploit the efficiency of the Reckon ecosystem by taking what we have to offer, and through a white label portal, passing this on directly to their clients.


It has been very pleasing for the Board to witness the evolution of the business to where it is today. We have a unique offering where one supplier can deliver all the needs of accountants, bookkeepers, small to medium sized enterprises as well as larger businesses.

This success is premised on superior technology ingrained customer focus, award winning development, excellent financial management, the commitment of our employees, and the support of our network of partners and customers.

We announced on 22 March 2012 that as a consequence of the gradual divergence of Reckon's and Intuit's ambitions for the online or cloud world we had entered into a notice period for the termination of our licence agreement with Intuit by February 2014. Thereafter we still derive the benefit of having access to the source code of the then latest version of QuickBooks and Quicken.

We have enjoyed a strong and successful relationship with Intuit but the end of the licence agreement is not something that came out of the blue. It is rather the end result of several years of diversification and growth of our business into the Reckon ecosystem that extends revenue sources beyond the traditional products supplied by Intuit.

We look forward with confidence to the rest of 2012 and the years ahead.



**John Thame**  
Chairman

**Clive Rabie**  
Group CEO

# Directors' Report

The Directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2011

## BOARD OF DIRECTORS

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### **John Thame AAI BF FCPA**

#### **Non-Executive Chairman**

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.

### **Ian Ferrier AM FCA**

#### **Non-Executive Director**

Ian Ferrier is a Fellow of the Institute of Chartered Accountants in Australia. He has extensive experience in company corporate recovery and turnaround practice. He is also a Director of a number of private and public companies. Ian was appointed Chairman of InvoCare Limited in 2001. Ian is also Chairman of Australian Vintage Limited having been a Director since 1991 and Chairman of Goodman Group Limited having been appointed Director 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.

### **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 and was appointed to the Audit & Risk Committee in February 2010.

### **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. Myron also assumes responsibility for some aspects of the management and operations of the ReckonDocs and nQueue Billback businesses. He is also a member of the Business Advisory Committee of ASIC's "Real Economy".

### **Marianne Kopeinig LLM, GDipAppI CorpGov**

#### **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.

Current directors' and officers' interest in the company are set out in Note 26.

## Principal Activities

Reckon Limited conducts business predominantly across three areas: (1) the sales and support of small to medium and enterprise sized business accounting software and personal wealth management software under the Reckon, QuickBooks and Quicken brands; the sales and support of corporate services such as company incorporations, SMSF documentation and ASIC compliance management under the ReckonDocs brand, (2) the sales and support of accounting practice management and allied software under the APS brand to larger professional accounting firms, and to smaller professional accounting firms under the Elite brand; (3) supplying software solutions to legal firms and corporations in the main areas of revenue management, expense management, print solutions, business process automation, business intelligence, document service automation, and document management.

Through strategic development and acquisition of businesses and technology, Reckon aspires to broaden its scope of operations to provide complementary products and services across these business areas. The main products and services are principally organised into three operating units: the Business Division, the Professional Division and nQueue Billback Division.

In the Business Division, under the Reckon, QuickBooks and Quicken brands, Reckon develops, localises, distributes and provides after sales technical support for the accounting software needs of small to medium sized and enterprise businesses and in the personal finance and wealth management sector. In addition, Reckon independently develops and distributes a payroll and point of sale solution. Under the Reckon Tools brand, Reckon develops applications that enhance these products, for example: electronic data interchange (“EDI”) functionality, bill payment solutions, super choice management solutions, on-line backup, and on-line trading.

Reckon has co-ordinated its group product development efforts to meet the growing demand for remote and mobile access to solutions and applications, and cloud based products. This includes co-ordination across the Business Division and Professional Division to meet a longer term goal of integrated and collaborative solutions for accountants, bookkeepers, small to medium sized enterprises as well as larger businesses.

Overall Reckon is developing its range of products within what is known as the Reckon ecosystem which brings together all its traditional and new applications, whether on a desktop, on premises or in the cloud, in a single environment where they integrate to improve collaboration between businesses, accountants, banks, government agencies and other stakeholders.

Reckon has also developed QuickBooks, hosted by Reckon Online. This offers end users and accountants a convenient secure online product that is accessible from anywhere that very closely mimics the QuickBooks desktop package.

Reckon has recently added to the Reckon ecosystem by releasing (1) CashBook Online, a simple cloud-based product that links to banks; (2) Reckon BankData which allows connections with banks and other financial institutions to permit customers to directly download bank statement data into online products such as QuickBooks, hosted by Reckon Online; (3) Reckon GovConnect which delivers and lodges relevant reports from QuickBooks, seamlessly to government agencies such as the ATO and ASIC; as well as (4) an online version of Reckon’s POS product which will be made available soon.

Reckon localises QuickBooks and Quicken software for the Australian and New Zealand markets, enjoying the benefit of Intuit’s annual research and development budget that exceeds US\$600 million. Reckon is able to continue to leverage off this extensive research and development spend without the usual associated development risk, whilst Intuit and Reckon have entered a notice period. After the Intuit licence agreement terminates in 2014, Reckon will continue to have ongoing access to the source code of the then latest version.

The Reckon Elite business develops and distributes tax return preparation tools, practice management tools and related solutions for accountants and tax agents in public practice, with some recent sales in other markets. Reckon Elite focuses on sales to smaller accounting firms compared to APS which focuses on the larger firms.

Reckon Elite will soon be made available in an online version, as part of the company’s overall strategy to offer integrated online solutions for small business owners and accountants.

Through its New Zealand subsidiary Reckon distributes QuickBooks and Quicken products as well as iBankData and IBackup solutions and supports Intrepid Payroll.

ReckonDocs is a corporate services business, part of the Business Division, comprising a services and data business.

# Directors' Report continued

## Principal Activities continued

The ReckonDocs 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 on-line company registration service available 24 hours a day, seven days a week. It also provides documentation and services for the establishment of a range of entities, especially trusts for self managed superannuation funds. It also provides services for constitution updates and domain name registrations.

The ReckonDocs data 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.

ReckonDocs also offers a desktop utility call ReckonDocs Desktop (RDD) that is a simple and convenient desktop application for company registration, searches, and ASIC compliance management. The same product has been developed for integration into the Practice Management suite of APS, known as Advance Company Registers (ACR).

In the Professional Division, the APS business develops, distributes and supports a suite of solutions for professional service firms in Australia, New Zealand and the United Kingdom. For professional accountants these solutions also include tax and accounts production. APS also delivers a wide range of complementary applications to practice management.

The Professional Division has joined with the Business Division to co-ordinate development to meet the group's overall strategy of delivering integrated solutions, on the desktop, on premises, and in the cloud, to businesses and accountants.

The APS business continues to be considered a market leader in the provision of its products and services to professional accounting firms. This is reflected in the market share that APS enjoys in Australia and New Zealand.

APS 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 "Advance" suite.

The Advance suite comprises several integrated modules for several business critical functions in professional firms: Practice Management (PM); Reporting (PIQ); Document and E-mail Management (DM); Taxation (Tax); Client Accounting (XPA); Client Relationship Management (CRM); Resource Planning (RP); Superannuation (DS); Corporate Secretarial (ACR) Workpaper Management (WM); and others.

The nQueue Billback division provides software and support services in the revenue management, expense management, print solutions, document service automation, and document management markets. It operates in the United Kingdom and the United States of America. APS is also progressively integrating these solutions into its practice management suite.

The nQueue Billback business 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. nQueue Billback's software offerings 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.

## Review of Operations

### Overview of financial performance

- Revenue was up 1% to \$91.3 million from \$90.3 million.
- Group EBITDA (IFRS) was up 4% to 31.3 million from \$30.2 million.
- Group EBITDA (excluding relocation costs, non-IFRS amount) was up 10% to \$33.1 million from \$30.2 million.
- Group NPAT (IFRS) was down 3% to \$16.7 million from \$17.2 million.
- Group NPAT (excluding relocation costs, non-IFRS amount) was up 6% to \$18.3 million from \$17.2 million.
- Basic EPS (IFRS) was down 2% to 12.1 cents per share from 12.4 cents per share.
- Basic EPS (excluding relocation costs, non-IFRS amount) was up 8% to 13.4 cents per share from 12.4 cents per share.
- Final dividend of 4.5 cents per share – 90% franked with a full year dividend payout ratio of 66%.
- The company had zero debt at 31 December 2011.

For 2011, direct revenue in the Business Division continued to trend upwards, growing by 6%, with strong performances in sales of enterprise versions of QuickBooks and QuickBooks Hosted. The division was, however, impacted by a substantially weaker retail channel in 2011 and fewer tax changes in New Zealand in 2011 compared to 2010 which dampened upgrade revenue (down by 33%). Market share growth in the retail channel has continued and the business continues to add substantial numbers of new customers through both the retail channel and online offerings sold direct.

The Professional Division had a particularly good result in Australia for the year, with EBITDA growing by 24%. The performance of the Professional Division was aided by improved performances in the second half in both New Zealand and United Kingdom. The division continued its

## Review of Operations *continued*

historically strong new product sales growth from both new clients and existing clients, which adds to the maintenance revenue base for each subsequent year.

A substantially improved second half performance in the United Kingdom has meant that the nQueueBillback Division was able to reduce some of the effect of exchange rates on this division. A high proportion of revenue in this division is also made up of sales to new customers, as it continues to increase market share.

A combination of growth in core business revenue and a focus on constraining costs has allowed the group to mitigate impact on some revenue channels, resulting in EBITDA growth of 10% (before relocation costs) and corresponding improvement in EBITDA margins from 33% to 37%.

### Dividends

On 6 February 2012, the Board declared a final dividend of 4.5 cents per share (90% franked) payable to shareholders recorded on the Company's Register as at the record date of 17 February 2012. Reckon does not have a dividend re-investment plan currently in operation. On 8 August 2011, the Board declared an interim dividend of 3.5 cents per share (90% franked) payable to shareholders recorded on the Company's Register at record date of 23 August 2011.

## Significant Changes in State of Affairs

There were no significant changes in state of affairs.

## Matters Subsequent to the End of the Financial Year

On 8 August 2011 the company announced a buy-back of shares which permits the Company to buy back up to 10% of its shares on the open market. As at 14 March 2012, 557,054 shares have been bought back for an average price of \$2.45 per share. It is anticipated to keep the buy back in place until 31 December 2012, subject to the normal ASIC requirements.

The company continues to pursue its strategy of including web hosting, domain name re-sales, e-commerce enablement and allied services as part of its offering to small businesses, but has decided that the strategic equity investment in Melbourne IT Limited is not key to this strategy and since year end had sold 3,104,958 shares in Melbourne IT Limited for \$4,992 thousand. These shares were originally acquired for \$5,641 thousand.

On 22 March 2012, Reckon announced as a consequence of the gradual divergence of the respective online ambitions of Reckon and Intuit Inc, that they have entered a notice period ending on 10 February 2014, when Reckon's licensing agreement with Intuit will be formally terminated.

From a Reckon Limited perspective it is business as usual until 10 February 2014, whereafter Reckon will enjoy royalty free rights to continue selling, and may independently develop the then current Intuit desktop technology and QuickBooks Hosted technology for a 100 year period, using its own brands.

In the online market, Reckon continues to develop products and will be rolled out over the coming months. The strategy remains to provide fully localised products specifically for Reckon's markets hosted locally, to achieve ambitions of providing integrated solutions to achieve greater efficiency for accountants, bookkeepers, and their business clients.

A final dividend for 2011 was declared on 6 February 2012 as disclosed above.

### Other Matters

Other than as disclosed in this Directors' Report no other matter or circumstance has arisen since 31 December 2011 that has significantly affected, or may significantly affect:

- the consolidated entity's operations in future financial years, or
- the results of those operations in future financial years, or
- the consolidated entity's state of affairs in future financial years.

## Future Developments

The company will continue to pursue its historically well tested strategies of expanding its product offering; pursuing recurring revenue; selling across divisions; maintaining and enhancing relationships with its network of partners, including retailers and professional partners; and striving for operational efficiency.

While traditional business will remain important, the group will also continue to pursue its cloud strategy focusing on developing products that fit into the Reckon ecosystem to provide solutions for small businesses and accountants that are integrated, allow for collaboration, and are connected to financial institutions and government agencies.

Other than as outlined above, disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## Directors' Shareholdings

As at the date of this report, the Directors held shares and options in Reckon Limited as set out in Note 26 to the accounts.

# Remuneration Report

(Audited)

## Key management

The key management personnel include the directors and those people who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity. Key management personnel details are set out on page 13 below.

## Policy for determining remuneration of key management personnel

Policy for determining remuneration of key management personnel, including the directors, the deputy Chairman, Group CEO, Group CFO, Divisional CEOs and other Company officers is the ultimate responsibility of a remuneration committee comprising the Chairman of the Board and one other independent non-executive director. The Chairman of the remuneration committee is Ian Ferrier. There is no formal charter for the remuneration committee. Policy is set with due consideration for the need to motivate directors and management to pursue the long-term growth and success of the Company as well as to tie remuneration in with performance as contemplated in the ASX Corporate Governance Principles and Recommendations ("ASX Guidelines"). It is the view of the Board that the Company complies with the substance of the aims and aspirations of the ASX Guidelines in the context of the size of the company, the size of the Board, the size of the senior management team and the size of the business.

Policy for determining remuneration of other management personnel has been delegated to the Group CEO, Group CFO and Divisional CEOs by the Board to be exercised in accordance with the same broad principles as apply for the Group CEO, Group CFO, other company officers and Divisional CEOs. The Board reviews all remuneration in its consideration of the Company's annual budget process. The Board, through the remuneration committee will consider for approval the levels of remuneration set in the annual budgeted, taking into account the relevant performance budgeted as well as compared with historical performance.

The policy is to pay the relevant officers and employees' remuneration consistent with applicable market comparisons suited to the unique features of the company, the competitive landscape, the scale of the business, the responsibilities of the individual directors and employees, internal relativities and performance. The Board is conscious of the need to attract and retain talent. The remuneration policy takes account of striking the right balance between short term benefits and long term incentives. All remuneration is reviewed annually. Generally increases, if justified, will not exceed comparable market increases.

## Terms of employment for key management personnel

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.

For 2011, remuneration for key management personnel including the Group CEO, Group CFO, other company officers, Divisional CEOs, and other senior executives, comprises a fixed element, a short-term incentive element and a long-term incentive element.

## Fixed component

The fixed component of remuneration is determined in preparing the annual budget for the year and then subjected to the approval of the Board through the remuneration committee.

## Short term incentive payments

The short-term incentive component of remuneration is dependent on satisfaction of performance conditions. Each annual budget fixes a pool representing the total 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 earnings per share (EPS) target measured against the budgeted performance of the Company. The Board retains a discretion regarding the allocation of the pool between employees as well as regarding weightings. Short term incentives are paid in cash as bonuses usually in about February or March of the following year. If the relevant performance targets are exceeded, then the amount of short term incentive can be increased by an amount not exceeding 10% of the total pool.

## Long term incentive payments

The long-term incentive component is the last of the mix of the components comprising remuneration packages. It is aimed at retaining the long term services of the key management personnel to whom it applies and to align their remuneration with the longer term performance of the Company. The substance of the long-term incentive component for key management was approved by Special General Meeting on 20 December 2005. In general terms, the long-term incentive component comprises several possible methods of participation: an option plan, a performance share plan (which includes a long term retention incentive) and a share appreciation plan. The Board has discretion to approve the making of offers to applicable employees to participate in any of these plans. Options granted and/or performance shares awarded (all in respect of the Company's ordinary shares) and/or share appreciation rights do not vest before three years after their grant date or at least seven years in the case of the long term retention incentive. Vesting is

also conditional upon the Company achieving defined performance criteria. The performance criteria for all plans except for the long term retention incentive are based upon a total shareholder return (TSR) target. 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. The Company's initial TSR target will be 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 mechanism and detailed criteria to achieve the Board's objectives was designed by an independent consultant and offers were made under the rules of the company's original performance share plan approved by shareholders at the Special General Meeting on 20 December 2005.

The Board will review the suitability of the comparator group on an ongoing basis. Some of the entities comprising the comparator group have been delisted either as part of merger and acquisition activity or for other reasons. This was factored into the calculation of the Company's performance by the independent valuers who undertook the exercise on behalf of the Company. Where companies were delisted for example, it was assumed that the Company out-performed that company. The comparator group of companies used in the performance period for assessment included (1) Adacel Technologies Limited, (2) Firstfolio Limited (previously listed as AFS), (3) Altium Limited, (4) Amcom Telecommunications Limited, (5) ASG Group Limited, (6) CPT Global Limited, (7) Eftel Limited, (8) Eservglobal Limited, (9) Hansen Technologies Limited, (10) Infomedia Ltd, (11) Integrated Research Limited, (12) Melbourne IT Limited, (13) Lifestyle Communities Limited (previously listed as NMB), (14) MYOB Limited (no longer listed), (15) Newsat Limited, (16) Objective Corporation Limited, (17) Oakton Limited, (18) Powerlan Limited, (19) Queste Communications Limited, (20) Rea Group Ltd, (21) Sirius Corporation Limited, (22) Sonnet Corporation Limited (no longer listed), (23) Asian Pacific Limited (previously listed as TMO, no longer listed), (24) Technology One Limited, (25) Talent2 International Limited, (26) Chariot Limited (no longer listed), (27) Citect Corporation Limited (no longer listed).

Only 50 percent of options or performance shares become exercisable or vest if the initial performance criterion is satisfied. The extent to which the balance of options or performance shares become exercisable or vest will depend on the extent to which the initial performance criterion is exceeded (i.e. the extent to which the Company exceeds a median ranking against the TSR position of the comparator group of companies).

The share appreciation right plan represents an alternative remuneration component (to offering options or 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 if performance criteria are met. The performance criteria

are fixed by the Board in the exercise of its discretion. At present these are the same as the TSR target set for the right to exercise options or for performance shares to vest.

On 24 May 2011 the remuneration committee approved and recommended to the board an extension to the long term incentive plan.

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.

Other aspects of the remuneration strategy deal with fixed remuneration, short term and long term incentives and are measured against customary key indicators such as revenue growth, EBITDA, EPS and TSR. This strategy has now been enhanced to provide a measure of equity rewards for very long and consistent performance by executives considered key.

The independent consultant did not make any remuneration recommendation in relation to the key management personnel for the company.

These performance shares 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.

Offers made in 2011 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 value of the shares offered, the remuneration committee is of the view that the addition of this incentive to remuneration offered is appropriate and 'fair and reasonable', a view supported by the independent consultant.

It is the remuneration committee's belief that the addition of these performance shares has added to the balance and overall mix of

# Remuneration Report continued

## (Audited)

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.

### Balance between salary, short term and long term incentives

It is the Board's opinion that an adequate balance is struck between the three 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 additional targets comprising TSR reflect a further assessment of value to shareholders before the remuneration is earned. As stated above the comparator group to which reference will be had will be subject to review.

The remuneration committee is satisfied that to date, the remuneration of the relevant employees accords with the general upward trend of the performance of the Company and returns to shareholders, as set out in the table below; and also takes into account the imperative to retain their services so as to avoid the business and opportunity costs associated with replacing them as well as the need to be commensurate with market rates.

### Consequence of performance on shareholder wealth

	NPAT	EPS	Dividend	Changes in Share Price between the beginning and the end of the year	
				Beginning of January	End of December
	\$'000	(cents per share)		(cents)	
<b>2007</b>	9,893	7.5	5.5	102	139
<b>2008</b>	11,312	8.5	6.0	139	105
<b>2009</b>	13,602	9.9	7.0	105	184
<b>2010</b>	17,248	12.4	8.0	184	234
<b>2011 (reported)</b>	16,693	12.1	8.0	234	234
<b>Premises relocation costs*</b>	1,646				
<b>2011 Before premises relocation costs (Non-IFRS)</b>	18,339	13.4	8.0	234	234

\* Accounting standards require that provision be made for the expected shortfall in the sub-lease of Pyrmont premises. The net savings from the move to the new North Sydney premises will more than offset this cost over the period of the lease.

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 Reckon equity plan participants are required to confirm that they have not entered into any transactions which would contravene the Company's Trading Policy.

## Remuneration 2011

		Fixed component	Short term incentive component		Other compensation	Long term incentive component		
Office		Salary	Bonus <sup>1</sup>	Other short term benefits <sup>2</sup>	Superannuation	Equity settled share based payments- Performance shares <sup>3 8</sup>	Cash settled share based payments- Appreciation rights <sup>4 6</sup>	Total remuneration
<b>Directors<sup>7</sup></b>								
<b>John Thame</b>	Chairman, Non-executive Director	\$100,000	\$0	\$0	\$9,000	\$0	\$0	\$109,000
<b>Greg Wilkinson</b>	Deputy Chairman, Non-executive Director	\$85,000	\$0	\$0	\$7,650	\$0	\$0	\$92,650
<b>Clive Rabie</b>	Group CEO, Executive Director	\$575,000	\$206,052	\$0	\$51,750	\$0	\$338,360	\$1,171,162
<b>Ian Ferrier</b>	Non-executive Director	\$85,000	\$0	\$0	\$7,650	\$0	\$0	\$92,650
<b>Executives<sup>7</sup></b>								
<b>Brian Armstrong<sup>5</sup></b>	CEO, Professional Division	\$370,000	\$114,751	\$0	\$33,300	\$44,911	\$0	\$562,962
<b>Chris Hagglund</b>	CFO	\$350,000	\$92,050	\$0	\$31,500	\$74,488	\$0	\$548,038
<b>Myron Zlotnick</b>	General Counsel & Company Secretary	\$288,000	\$61,367	\$0	\$25,920	\$51,206	\$0	\$426,493
<b>Brian Coventry</b>	CEO, Professional Division	\$321,000	\$74,837	\$0	\$12,308	\$18,813	\$0	\$426,958
<b>Gavin Dixon</b>	CEO, Business Division	\$388,500	\$99,783	\$0	\$34,965	\$75,392	\$0	\$598,640
<b>Richard Hellers</b>	President and CEO, nQueue Billback Division	\$228,967	\$72,604	\$9,970	9,197	\$0	\$0	\$320,738
<b>TOTAL</b>		<b>\$2,791,467</b>	<b>\$721,444</b>	<b>\$9,970</b>	<b>\$223,240</b>	<b>\$264,810</b>	<b>\$338,360</b>	<b>\$4,349,291</b>

1. The potential amounts payable for the short term cash performance bonuses are determined at the beginning of the year and are earned based upon the performance criteria for the year. The amounts paid include a portion for 2010 effectively requiring the employee to remain employed for a further one year period to 31 December 2011 before being paid the remaining short term bonus for performance in 2010. The short term bonus for Mr Hellers is based on specific performance targets for the nQueue Billback Division.

2. For Mr Hellers this represents an allowance for a motor vehicle as well as a contribution to medical and life insurance.

3. The dollar value of the long term incentive and retention component in the above table 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 2009 to 2011 and (2) allocated over the 7 year period from 2011 to 2017 for shares offered as a long term retention incentive. The fair value of the performance shares offered in 2011 for the performance period 2011 to 2013 at grant date was \$1.912 per share valued according to the Monte Carlo simulation approach. The fair value of the shares offered in 2011 for the long term retention incentive for the period 2011 to 2017 at 1 January 2011 was \$1.84 per share valued according to the Monte Carlo simulation approach. For the performance period 2011 to 2013 performance shares were offered as follows: Mr Hagglund (32,268 shares), Mr Zlotnick (21,160 shares), Mr Coventry, (10,580 shares) and Mr Dixon (35,971 shares). The date of grant for each of these participants was 1 January 2011. If the performance criteria are met, then the shares are released at no consideration on 31 December 2013. For the long term retention incentive period 2011 to 2017 performance shares were offered as follows: Mr Hagglund (25,000 shares), Mr Zlotnick (25,000 shares) and Mr Coventry (12,500 shares). These shares vest on 31 December 2017 at zero cents subject to the employees remaining in employment for the period. The fair value of performance shares which vested or were forfeited during the 2011 financial year are set out in the table below.

4. The dollar value of the share appreciation incentive in the above table is determined using a model that adapts the Monte Carlo simulation approach allocated over each year of the 3 year performance period for 2009 to 2011. The fair value of the rights offered for the performance period 2011 to 2013 was \$0.620 valued according to the Monte Carlo simulation approach. 282,258 rights were issued under the plan on 1 January 2011 for the performance period 2011 to 2013. The fair value of appreciation rights which vested or were forfeited during the 2011 financial year are set out in the table below.

5. Employment ended on 31 December 2011. No termination benefit paid.

6. For the share appreciation incentive, the amount 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.

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

8. 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 2011.

# Remuneration Report continued

(Audited)

## Remuneration 2011 continued

	Percentage of total remuneration that is performance related	Percentage of available bonus which vested in the year	Percentage of available bonus which was forfeited during the year	No of performance shares vested in 2011	Value of Performance shares vested in 2011 <sup>1</sup>	Value of Performance shares forfeited in 2011	Value of Appreciation rights vested in 2011	Value of Appreciation rights forfeited in 2011
<b>Directors</b>								
John Thame	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greg Wilkinson	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Clive Rabie	46%	91%	9%	n/a	n/a	n/a	\$1,017,042	0
Ian Ferrier	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Executives</b>								
Brian Armstrong	20%	91%	9%	111,583	\$134,734	\$22,666	n/a	n/a
Chris Hagglund	30%	91%	9%	72,619	\$80,197	\$0	n/a	n/a
Myron Zlotnick	26%	91%	9%	47,619	\$52,588	\$0	n/a	n/a
Brian Coventry	22%	91%	9%	13,333	\$14,724	\$0	n/a	n/a
Gavin Dixon	29%	91%	9%	80,952	\$89,400	\$0	n/a	n/a
Richard Hellers	23%	75%	25%	n/a	n/a	n/a	n/a	n/a
<b>TOTAL</b>				<b>326,106</b>	<b>\$371,643</b>	<b>\$22,666</b>	<b>\$1,017,042</b>	<b>\$0</b>

1. For Mr Armstrong the \$134,734 includes \$44,911 being the value of 30,631 shares which represent two thirds of 45,946 performance shares offered in 2010 and released to Mr Armstrong by the board upon the termination of Mr Armstrong's employment at the end of 2011.

Options and shareholding for directors and relevant employees can be found at Note 26 to the accounts.

## Remuneration 2010

		Fixed component	Short term incentive component		Other compensation	Long term incentive component		
Office		Salary	Bonus <sup>1</sup>	Other short term benefits <sup>2</sup>	Superannuation	Equity settled share based payments- Performance shares <sup>3,8</sup>	Cash settled share based payments- Appreciation rights <sup>4,6</sup>	Total remuneration
<b>Directors<sup>7</sup></b>								
John Thame	Chairman, Non-executive Director	\$95,000	\$0	\$0	\$8,550	\$0	\$0	\$103,550
Greg Wilkinson	Deputy Chairman, Non-executive Director	\$82,000	\$0	\$0	\$7,380	\$0	\$0	\$89,380
Clive Rabie	Group CEO, Executive Director	\$550,000	\$180,041	\$0	\$49,500	\$0	\$980,269	\$1,759,810
Ian Ferrier	Non-executive Director	\$80,000	\$0	\$0	\$7,200	\$0	\$0	\$87,200
<b>Executives<sup>7</sup></b>								
Brian Armstrong	CEO, Professional Division	\$370,000	\$103,934	\$0	\$33,300	\$76,797	\$0	\$584,031
Chris Hagglund	CFO	\$335,000	\$78,447	\$0	\$30,150	\$68,355	\$0	\$511,952
Paul James <sup>5</sup>	GM, Professional	\$182,358	\$40,560	\$71,269	\$20,123	\$6,172	\$0	\$320,482
Myron Zlotnick	General Counsel & Company Secretary	\$275,000	\$51,440	\$0	\$24,750	\$42,070	\$0	\$393,260
Brian Coventry	MD, Professional Division United Kingdom	\$179,832	\$13,200	\$0	\$9,652	\$8,642	\$0	\$211,326
Gavin Dixon	CEO, Business Division	\$370,000	\$87,449	\$0	\$33,300	\$76,037	\$0	\$566,786
Grant Linton	GM, Professional Division New Zealand	\$116,627	\$19,608	\$28,430	\$15,259	\$6,172	\$0	\$186,096
Nigel Boland	GM Development, Professional Division	\$169,323	\$16,471	\$2,243	\$16,215	\$8,642	\$0	\$212,894
Richard Hellers	President and CEO, nQueue Billback Division	\$217,628	\$108,814	\$9,546	\$10,055	\$0	\$0	\$346,043
Russell Scott	GM, Reckon Docs	\$200,500	\$0	\$0	\$18,045	\$0	\$0	\$218,545
<b>TOTAL</b>		<b>\$3,223,268</b>	<b>\$699,964</b>	<b>\$111,488</b>	<b>\$283,479</b>	<b>\$292,887</b>	<b>\$980,269</b>	<b>\$5,591,355</b>

1. The potential amounts payable for the short term cash performance bonuses are determined at the beginning of the year and are earned based upon the performance criteria for the year. The short term bonus for Mr Hellers is based on specific performance targets for nQueue Billback LLC.

2. For Mr James this represents a redundancy termination payment. For Mr Linton this represents sales commission of \$26,187 and a car park allowance of \$2,243. For Mr Boland this represents a car park allowance. For Mr Hellers this represents a contribution to life and medical insurance.

3. Mr Armstrong (45,946 shares), Mr Hagglund (41,216 shares), Mr James (5,405 shares), Mr Zlotnick (27,027 shares), Mr Coventry, (7,568 shares), Mr Dixon (45,946 shares), Mr Linton (5,405 shares) and Mr Boland (7,568 shares) are participants in the 2010 performance share plan. The date of grant for each of these participants was 1 January 2010. The value of the long term incentive is the fair value using a model that adopts the Monte Carlo simulation approach allocated over each year of the 3 year performance period. If the performance criteria are met, then the shares are released at no consideration. The fair value of the performance shares at grant date was \$1.48. The performance shares are exercisable on 31 December 2012 at zero cents. The fair value of performance shares which vested and were forfeited during the financial year are set out in the table below.

4. Mr Rabie is a participant in the share appreciation plan. 357,873 rights were issued under the plan on 1 January 2010. The value of the rights was \$0.489 determined using a model that adopts the Monte Carlo simulation approach to determine the value as at hurdle dates.

The fair value of appreciation rights which vested and were forfeited during the financial year are set out in the table below.

5. Employment ended on 31 December 2010.

6. The amount 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. The share based remuneration earned by Mr Rabie relative to share price movement is as follows:

	Share based remuneration	Share price movements
2008	\$34,088	-24%
2009	\$661,843	+75%
2010	\$980,269	+27%

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

8. 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 2010.

# Remuneration Report continued

(Audited)

## Remuneration 2010 continued

	Percentage of total remuneration that is performance related	Percentage of available bonus which vested in the year	Percentage of available bonus which was forfeited during the year	No of performance shares vested in 2010	Value of Performance shares vested in 2010	Value of Performance shares forfeited in 2010	Value of Appreciation rights vested in 2010	Value of Appreciation rights forfeited in 2010
<b>Directors</b>								
John Thame	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greg Wilkinson	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Clive Rabie	66%	94%	6%	n/a	n/a	n/a	\$497,585	\$0
Ian Ferrier	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Executives</b>								
Brian Armstrong	31%	94%	6%	58,656	\$72,990	0%	n/a	n/a
Chris Hagglund	29%	94%	6%	51,324	\$63,867	0%	n/a	n/a
Paul James	15%	100%	0%	15,482	\$18,801	\$8,836	n/a	n/a
Myron Zlotnick	24%	94%	6%	27,018	\$33,621	0%	n/a	n/a
Brian Coventry	10%	33%	67%	7,332	\$9,124	0%	n/a	n/a
Gavin Dixon	29%	94%	6%	56,823	\$70,710	0%	n/a	n/a
Grant Linton	14%	100%	0%	0	\$0	0%	n/a	n/a
Nigel Boland	12%	50%	50%	7,332	\$9,124	0%	n/a	n/a
Richard Hellers	31%	100%	0%	n/a	n/a	n/a	n/a	n/a
Russel Scott	0%	0%	0%	n/a	n/a	n/a	n/a	n/a
<b>TOTAL</b>				<b>223,967</b>	<b>\$278,237</b>	<b>\$8,836</b>	<b>\$497,585</b>	<b>\$0</b>

# Directors' Report continued

## 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	Meetings					
	Board		Audit & Risk Committee		Remuneration Committee	
	A	B	A	B	A	B
JM Thame	10	10	2	2	2	2
I Ferrier	10	9	2	2	2	2
GJ Wilkinson	10	9	2	2	n/a	n/a
C Rabie	10	10	n/a	n/a	n/a	n/a

Key: A – number of meetings eligible to attend; B - number of meetings attended

## Non-Audit fees

Details of the non-audit services can be found in Note 4 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 4 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 J Thame  
Chairman  
Sydney, 28 March 2012.

# Corporate Governance Report

The Company is committed to a system of relationships, policies and processes which align with the ASX Corporate Governance Principles and Recommendations, 2nd Edition ("the ASX Governance Principles") and the recent 2010 Amendments. 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 few departures from the Recommendations in the ASX Governance Principles are generally justified on the basis that the formal requirements of the Recommendations are not applicable to the size of the Company and the resources available. 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.

The Board's Corporate Governance policies can be viewed on the company website [www.reckon.com.au/Investor-Relations](http://www.reckon.com.au/Investor-Relations)

## 1. 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 responsibilities and duties of the Board are set out in the Constitution. 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.

The Company has adopted each of the Recommendations relating to Principle 1 of the ASX Governance Principles, except for the requirement in Recommendation 1.1, only to the extent that there is no formal charter. The Board is of the opinion, given the relatively small size of the composition of the board, the relatively flat structure of management, the size of the management team and open and frequent channels of communication between management and the Board, that there is adequate definition and understanding of the functions and responsibilities of the board and management. The Board maintains sufficiently 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.

The Board is able to efficiently deal with issues which, in other larger enterprises, may normally be delegated to committees

because of the size of the Company and the management team. The Audit & Risk Committee and Remuneration Committee are the only committees of the Board.

The Company undertakes an annual performance evaluation of key management personnel. The nature of the review process is as follows:

- In the case of key management personnel other than head of divisions the review process is managed and administered by the Group Human Resources Manager. It generally involves a 360 degree feedback review in which selected peers and reporting staff assess the performance of relevant executives and managers according to a set of questions benchmarked against key performance indicators. The process also includes a series of reviews with the Divisional CEO's in which the 360 degree feedback review is discussed with the relevant executive or manager and remedial steps and coaching, if applicable, are implemented. There may be further additional reviews undertaken through the year if necessary.
- In the case of head of divisions and head office management (CFO, General Counsel and Company Secretary) the review process is managed and administered by the Group Chief Executive Officer. The review involves a one-on-one interview in which performance against key performance indicators is assessed and discussed and feedback from peers (where relevant) is reviewed. Where necessary remedial steps are identified and coaching is implemented. There may be additional reviews undertaken through the year if necessary.

In addition, a portion of remuneration for key management personnel is tied into the financial performance of the Company as set out in more detail in the Remuneration Report. Performance evaluation for key management personnel was undertaken in 2011 and it was in accordance with the processes disclosed in this report.

The independent non-executive directors also generally informally monitor and review the ongoing performance of senior executives.

The Group Human Resources Manager is also responsible for managing and administering an induction process for newly appointed senior executives. In addition the Group CEO and divisional CEO's undertake a rigorous process of briefing new senior executives.

## 2. The Board

At present, the Board comprises four members: John Thame, Ian Ferrier, Greg Wilkinson and Clive Rabie. Mr Thame is Chairman of the Board and he, together with Mr Ferrier, 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.

The Company has adopted each of the Recommendations relating to Principle 2 of the ASX Governance Principles, except for the requirement in Recommendation 2.1 and 2.4 due to the size and circumstances of the Board. However in the opinion of the Board, the existing structure and processes are appropriate for the Company and still meet the objectives of the Recommendations and Principle 2. While there is not strictly an independent majority in the sense described in Recommendation 2.1, as there are only four directors, the non-executive directors ensure that all issues that come before the Board are considered in an impartial manner and from a variety of perspectives and meet the objectives of Recommendation 2.1. Mr Wilkinson, although still a substantial shareholder, has occupied a non-executive position for more than three years since he resigned from the management of the Company. The Chairman, who is independent, has a casting vote where necessary. The independent non-executive directors oversee the nomination of any potential directors.

The criteria for directorship and the election process are set out in the Company's constitution. The size of the Board dictates that there is no efficiency obtained in establishing a formal nomination committee. Accordingly, the Company departs from this requirement in Recommendation 2.4.

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. 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.

Directors are entitled 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 agree when to 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 Chairman also has frequent contact with internal legal counsel to assess the need for external advice.

The Board met ten times during 2011. 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.

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, experience and perspective of the other directors, is appropriately qualified and as far as possible familiar with the Company's market sector.

While there is no formal induction process in place, the Chairman, Deputy Chairman and Group CEO undertake a rigorous process of briefing new board members.

Given the size of the Company there is also direct informal communication on a regular basis between the Chairman and the Company Secretary on governance matters.

## 3. Ethical and Responsible Decision Making

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

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 embraces the substance of the ASX Governance Principles 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.

The Company recognises that diversity and inclusiveness is a critical aspect 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 is found across the Company, its employees, consultants, contractors and visitors.

The Company created a profile of executive, management and employees to benchmark the current status of diversity, as to gender, in the Company as at December 2011. Women

# Corporate Governance Report continued

represent 29% of the employees in the Company. There are no female members of the Board or female senior executive managers.

To promote the objectives of diversity in the Company, particularly as to gender, the Board has set the following key measurable objectives and KPIs:

1. To achieve greater representation of females in the Reckon Group, particularly in technical and supervisor/manager roles.
2. 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.
3. To implement training (in-house or external where relevant) to support a culture of diversity, for example: appropriate behaviour, harassment etc.
4. Development of a mentoring/succession program for all employees to encourage females to remain in the business.

The Company's performance against these objectives will be measured annually by measuring the percentage increase of females in technical roles, with the objective of achieving a 5% increase by December 2012.

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

## 4. Integrity in Financial Reporting

The Board assumes the responsibility to ensure 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 Governance Principles. The Audit & Risk Committee consists of John Thame and Ian Ferrier, independent, non-executive directors, as well as the non-executive director Greg Wilkinson, to ensure independent review of financial reporting over and above formal audit processes. Details of their experience and qualifications are set out in the Directors' Report.

The Audit & Risk Committee also meets informally to discuss matters including risk management and reporting.

With the appointment of Greg Wilkinson to the Audit & Risk Committee in February 2010, 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 financial literacy, enables it to discharge its functions effectively and meet the

objectives of Principle 4 and that the Company has fully adopted Recommendation 4.2.

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 provides written advice to the Board on the standard of independence of the auditors in light of any non-audit services during 2011 and which is reported in the Directors' Report.

At each Audit & Risk Committee meeting, the independent non-executive 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 2011. The Audit & Risk Committee reports back to the Board after each Audit & Risk Committee meeting. 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.

## 5. Timely and Balanced Disclosure

The Company has adopted each of the Recommendations relating to Principle 5 of the ASX Governance Principles. 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. Rights of Shareholders

The Board is conscious of the requirements of Principle 6 of the ASX Governance Principles and takes into account the rights and needs of shareholders to balanced and understandable information about the Company and acts in accordance with this Principle. The Company communicates with shareholders through its ASX disclosures to the market.

The Company also communicates with shareholders through the posting of statutory notices to shareholders and at the general and special meetings of the Company. The Company keeps recent announcements and general Company information on its web site with a dedicated investor relations section which is accessible to the public. The web site contains a link to the ASX web site for older announcements. Given the size and circumstances of the Company, there is no formally documented communications strategy, and in this respect the Company has not adopted Recommendation 6.1.

The Company's auditor attends the 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.

## 7. Recognise and Manage Risk

As stated above in paragraph 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, 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 virtually on a daily basis. The Board has received assurance from the CEO and the 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 in all material respects in relation to financial reporting risks. The Board is of the opinion that there is substantial compliance with the ASX Governance Principle 7 although Recommendations 7.1 and 7.2 have not yet been fully adopted.

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 provided with a declaration from the Group CEO and the Group CFO under section 295A of the Corporations Act, that due consideration is given to budgets, cash flows, realisation of current assets, continuity of terms of trade, and consideration of contingencies in the day to day operations of the Company and in the monthly management financial reporting and statutory reporting of the Company.

At present the nature of operations and scope of the business is reasonably well established and understood by management and the Board. 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 included in the various management and financial reports to the Board and are then considered by the Board. The reporting, identification and management of risk are now effectively a standing board agenda item.

Due to the effectiveness of the existing processes and the size of the business, business risk management systems, policies and procedures have not been comprehensively formalised. 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, if necessary.

## 8. Remunerate Fairly and Responsibly

The Company remunerates directors and key executives in accordance with the aspirations set out in ASX Governance Principle 8. 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 Remuneration Committee consists of the independent, non-executive directors, John Thame and Ian Ferrier. Details of their experience and qualification are set out in the Directors' Report. 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 option plans, and reviews the performance of the executive directors and senior executives. There is no formal charter for the Remuneration Committee, but it does fix policy and reward in accordance with ASX Governance Principle 8. The full detail of the policy and remuneration is contained in the Remuneration Report. The Remuneration Committee met twice during 2011. The details of attendance at these meetings are set out in the Directors' Report.

28 March 2012

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

## RECKON LIMITED

Dear Board Members

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 2011, 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*

**DELOITTE TOUCHE TOHMATSU**



**Michael Kaplan**  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited

## 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 2011, the consolidated statement of 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 25 to 64.

#### *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 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 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 entity'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 entity'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 continued

## *Auditor's Independence Declaration*

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.

## *Opinion*

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 2011 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 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 10 to 16 of the directors' report for the year ended 31 December 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*

**DELOITTE TOUCHE TOHMATSU**



**Michael Kaplan**  
**Partner**

Chartered Accountants  
Sydney, 28 March 2012

# Financial Report

## Directors' Declaration

The Directors of the company declare that:

1. the financial statements and notes as set out on pages 26 to 64, 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 2011 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;
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 J Thame

**Chairman**

Sydney, 28 March 2012.

# Consolidated Income Statement

for the year ended 31 December 2011

		Consolidated	
		2011	2010
Note		\$'000	\$'000
<b>Continuing operations</b>			
	<b>Revenue</b>	<b>91,272</b>	<b>90,273</b>
	Product and selling costs	(14,617)	(14,588)
	Royalties	(4,783)	(4,786)
	Employee benefits expenses	(27,349)	(27,461)
	Share-based payments expenses	(702)	(1,300)
	Marketing expenses	(2,197)	(2,471)
	Premises and establishment expenses	(2,261)	(2,685)
	Depreciation and amortisation of other non-current assets	(8,552)	(7,769)
	Telecommunications	(958)	(920)
	Legal and professional expenses	(707)	(981)
	Finance costs	(168)	(161)
	Other expenses	(4,397)	(4,752)
	Net costs associated with premises relocation – consolidation of Business and Professional Divisions into North Sydney premises	(2,352)	-
	<b>Profit before income tax</b>	<b>22,229</b>	<b>22,399</b>
	Income tax expense	(5,536)	(5,151)
	<b>Profit for the year</b>	<b>16,693</b>	<b>17,248</b>
	Profit attributable to:		
	Owners of the parent	16,062	16,478
	Non-controlling interest	631	770
		<b>16,693</b>	<b>17,248</b>
	<b>Earnings per share</b>	Cents	Cents
	Basic Earnings per Share	12.1	12.4
	Diluted Earnings per Share	12.0	12.4
	<b>Alternative earnings per share (excluding after tax effect of relocation cost)</b>	Cents	Cents
	Basic Earnings per Share	13.4	12.4
	Diluted Earnings per Share	13.3	12.4

The above consolidated income statement should be read in conjunction with the accompanying notes.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

		Consolidated	
		2011	2010
Note		\$'000	\$'000
	<b>Profit for the year</b>	<b>16,693</b>	<b>17,248</b>
	<b>Other comprehensive income</b>		
	Fair value adjustment of financial assets	20 (1,067)	-
	Exchange difference on translation of foreign operations	20 (12)	(294)
		15,614	16,954
	Prior year exchange differences on translation of foreign operations (relating to goodwill)	20 (863)	-
		<b>14,751</b>	<b>16,954</b>
	Total comprehensive income attributable to:		
	Owners of the parent	14,120	16,184
	Non-controlling interest	631	770
		<b>14,751</b>	<b>16,954</b>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

as at 31 December 2011

		Consolidated	
		2011	2010
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	27	4,703	8,095
Trade and other receivables	6	6,730	6,756
Inventories	5	1,181	831
Other assets	7	1,763	1,320
<b>Total Current Assets</b>		<b>14,377</b>	<b>17,002</b>
<b>Non-Current Assets</b>			
Receivables	6	777	236
Financial assets	8	6,257	56
Property, plant and equipment	9	3,401	3,760
Deferred tax assets	10	86	56
Intangible assets	11	45,966	46,438
<b>Total Non-Current Assets</b>		<b>56,487</b>	<b>50,546</b>
<b>Total Assets</b>		<b>70,864</b>	<b>67,548</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	12	5,470	5,838
Borrowings	13	-	2
Current tax payables		2,365	920
Provisions	14	3,502	2,007
Deferred revenue		6,287	5,742
Deferred rent contribution		8	233
<b>Total Current Liabilities</b>		<b>17,632</b>	<b>14,742</b>
<b>Non-Current Liabilities</b>			
Deferred tax liabilities	16	1,089	1,607
Provisions	14	1,641	1,337
Deferred rent contribution		6	721
<b>Total Non-Current Liabilities</b>		<b>2,736</b>	<b>3,665</b>
<b>Total Liabilities</b>		<b>20,368</b>	<b>18,407</b>
<b>Net Assets</b>			
<b>Equity</b>			
Issued capital	19	15,752	18,048
Reserves	20	(2,080)	(63)
Retained earnings	21	36,621	31,156
Equity attributable to owners of the parent		50,293	49,141
Non-controlling interest	28	203	-
<b>Total Equity</b>		<b>50,496</b>	<b>49,141</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 2011

<b>Consolidated</b>	Issued capital	Foreign currency translation reserve	Share-based payments reserve	AFS asset revaluation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2011</b>	18,048	(694)	631	-	31,156	49,141	-	49,141
Profit for the year	-	-	-	-	16,062	16,062	631	16,693
Other comprehensive income:								
Fair value adjustment of financial assets	-	-	-	(1,067)	-	(1,067)	-	(1,067)
Exchange differences on translation of foreign operations	-	(12)	-	-	-	(12)	-	(12)
	-	(12)	-	(1,067)	16,062	14,983	631	15,614
Prior year exchange differences on translation of foreign operations	-	(863)	-	-	-	(863)	-	(863)
Total comprehensive income	-	(875)	-	(1,067)	16,062	14,120	631	14,751
Share based payments expense	-	-	375	-	-	375	-	375
Share buyback	(1,366)	-	-	-	-	(1,366)	-	(1,366)
Dividends paid	-	-	-	-	(10,597)	(10,597)	(428)	(11,025)
Treasury shares vested/lapsed	450	-	(450)	-	-	-	-	-
Treasury shares acquired	(1,389)	-	-	-	-	(1,389)	-	(1,389)
Contributions of equity, net of transaction costs	9	-	-	-	-	9	-	9
<b>Balance at 31 December 2011</b>	<b>15,752</b>	<b>(1,569)</b>	<b>556</b>	<b>(1,067)</b>	<b>36,621</b>	<b>50,293</b>	<b>203</b>	<b>50,496</b>
<b>Balance at 1 January 2010</b>	18,037	(400)	639	-	24,625	42,901	374	43,275
Profit for the year	-	-	-	-	16,478	16,478	770	17,248
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	(294)	-	-	-	(294)	-	(294)
Total comprehensive income for the year	-	(294)	-	-	16,478	16,184	770	16,954
Share based payments expense	-	-	324	-	-	324	-	324
Dividends paid	-	-	-	-	(9,947)	(9,947)	(1,144)	(11,091)
Treasury shares vested/lapsed	314	-	(314)	-	-	-	-	-
Transfer to share capital	18	-	(18)	-	-	-	-	-
Treasury shares acquired	(370)	-	-	-	-	(370)	-	(370)
Contributions of equity, net of transaction costs	49	-	-	-	-	49	-	49
<b>Balance at 31 December 2010</b>	<b>18,048</b>	<b>(694)</b>	<b>631</b>	<b>-</b>	<b>31,156</b>	<b>49,141</b>	<b>-</b>	<b>49,141</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 2011

		Consolidated	
		Inflows/(Outflows)	
		2011	2010
		\$'000	\$'000
Note			
<b>Cash Flows From Operating Activities</b>			
	Receipts from customers	99,864	101,523
	Payments to suppliers and employees	(68,724)	(68,461)
	Dividends received	280	-
	Interest received	206	158
	Interest paid	(168)	(161)
	Income taxes paid	(4,639)	(4,879)
	<b>Net cash inflow from operating activities</b>	<b>27(b) 26,819</b>	<b>28,180</b>
<b>Cash Flows From Investing Activities</b>			
	Payments for purchase of intellectual property	(35)	(61)
	Payment for capitalised development costs	(7,350)	(7,568)
	Payment for property, plant and equipment	(1,756)	(1,387)
	Payment for investment	(7,268)	-
	Proceeds/(payments) for security deposits	-	8
	<b>Net cash outflow from investing activities</b>	<b>(16,409)</b>	<b>(9,008)</b>
<b>Cash Flows From Financing Activities</b>			
	Proceeds from issues of equity securities	9	49
	Proceeds from/(repayment of) borrowings	(2)	(2,396)
	Payment for share buyback	(1,366)	-
	Payment for treasury shares	(1,389)	(370)
	Dividends paid to owners of the parent	(10,597)	(9,947)
	Non-controlling interest dividends paid	(428)	(763)
	<b>Net cash outflow from financing activities</b>	<b>(13,773)</b>	<b>(13,427)</b>
	<b>Net Increase/(Decrease) in cash and cash equivalents</b>	<b>(3,363)</b>	<b>5,745</b>
	Cash and cash equivalents at the beginning of the financial year	8,095	2,350
	Effects of exchange rate changes on cash and cash equivalents	(29)	-
	<b>Cash and cash equivalents at the end of the financial year</b>	<b>27(a) 4,703</b>	<b>8,095</b>

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

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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.

### 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 28 March 2012.

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.

## Significant Accounting Policies

### (a) 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.

### (b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the fair value of the purchase consideration determined as at the date of acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is the fair value on the acquisition date. Acquisition related costs are recognised in the profit or loss as incurred.

In the event that settlement of all or part of the consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. However, where the deferred component is subject to certain criteria being met, the amount deferred is recognised based on an estimate where it is probable that the relevant criteria will be met. If the amount is not probable or cannot be reliably measured, no amount is recognised.

### (c) 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

### (d) Employee Benefits

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

Provisions made in respect of wages and salaries, annual leave, and other employee entitlements expected to be settled within 12 months are measured at the amounts expected to be paid when the liabilities are settled.

Provisions made in respect of long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

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.

### (e) 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.

### (f) 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

# Notes to the Financial Statements continued

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.

## (g) 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.

## (h) Intangible assets

### Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. Goodwill represents the excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is not amortised, and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Following initial recognition goodwill is measured at cost less any accumulated impairment losses. If an impairment has been identified, the goodwill is written down and an expense recognised

in profit or loss. Impairment losses recognised for goodwill are not subsequently reversed.

### Intellectual Property

Acquired Intellectual Property is recognised at cost, less accumulated amortisation and any impairment losses, and is amortised on a straight line basis between 3-10 years.

### Research and development costs

Research and development expenditure is recognised as an expense when incurred, except in the undernoted instances.

Development costs in respect of enhancements on existing Professional Division, nQueue Billback Division and Elite suites of software applications are capitalised and written off over a 3 to 4 year period. Development costs on technically and commercially feasible new Professional Division, nQueue Billback Division and Elite 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.

## (i) 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.

#### **(j) 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.

#### **(k) 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.

#### **(l) Principles of Consolidation**

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control the entity.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising from transactions within the consolidated entity are eliminated in full.

#### **(m) Receivables**

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

#### **(n) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

#### **(o) 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.

Professional Division software licence fee revenue is recognised at the point of "go live" (i.e. when all users can use the system on a fully 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.

Support and maintenance revenue is recognised on a straight-line basis over the period of the contract, unless the cost of providing the technical support is insignificant. Under those circumstances the revenue and the associated cost of providing the technical support is accrued upon delivery of the goods.

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, unless the cost of providing those services is insignificant. Under those circumstances the revenue and the associated cost of providing the services is accrued upon delivery of the goods.

##### **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.

#### **(p) Deferred Revenue**

Revenue earned from maintenance 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(o) for further detail.

#### **(q) 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.

# Notes to the Financial Statements continued

## **(r) Cash and cash equivalents**

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

## **(s) Other financial assets**

Available-for-sale financial assets are initially measured at cost at date of acquisition, which include transaction costs, and subsequent to initial recognition, they are carried at fair value. Unrealised gains and losses from changes in fair value are recognised in equity in the available-for-sale revaluation reserve. When available-for-sale assets are impaired, the accumulated fair value adjustments are included in the income statement.

Security deposits held as rental guarantees are recognised at amortised cost.

## **(t) 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.

## **(u) 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.

## **(v) Rounding of amounts**

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.

## **(w) 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 is 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 11.

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 18.

Product life and amortisation – The Group amortises capitalised 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.

### **(x) 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.

Initial application of the following Standards is not expected to affect any of the amounts recognised in the financial report, but may change the disclosures presently made in relation to the financial report.

## Standard/Interpretation

- o AASB 9 *Financial Instruments*, AASB 2009-11 and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9*
- o AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*
- o AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*
- o AASB 1054 *Australian Additional Disclosures*
- o AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*
- o AASB 2011-5 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*
- o AASB 10 *Consolidated Financial Statements*
- o AASB 11 *Joint Arrangements*
- o AASB 12 *Disclosure of Involvement with Other Entities*
- o AASB 13 *Fair Value Measurement*
- o AASB 119 *Employee Benefits*
- o AASB 127 *Separate Financial Statements (2011)*
- o AASB 128 *Investments in Associates and Joint Ventures*
- o AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards*
- o AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*
- o AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*
- o AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*
- o AASB 2011-13 *Amendments to Australian Accounting Standard – Improvements to AASB 1049*
- o AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
1 January 2013	31 December 2013*
1 July 2011	31 December 2012
1 January 2012	31 December 2012
1 July 2011	31 December 2012
1 July 2011	31 December 2012
1 July 2011	31 December 2012
1 January 2013	31 December 2013
1 January 2013	31 December 2013
1 January 2013	31 December 2013
1 January 2013	31 December 2013
1 January 2013	31 December 2013
1 January 2013	31 December 2013
1 January 2013	31 December 2013
1 July 2012	31 December 2013
1 January 2013	31 December 2013
1 July 2012	31 December 2013
1 January 2013	31 December 2013

\*The IASB has amended IFRS 9 to defer the mandatory effective date to annual periods beginning on or after 1 January 2015. It is expected that the AASB will issue similar amendments shortly.

# Notes to the Financial Statements continued

## 2 Profit for the year

Profit before income tax includes the following items of revenue and expense:

### Revenue

#### Sales revenue

Sale of goods and rendering of services

#### Other Revenue

Espreon litigation settlement

Dividend income

Interest revenue – Bank deposits

### Expenses

Cost of Sales

Bad debt expense:

Other Entities

Finance costs expensed:

Bank loans and overdraft

Net transfers to/(from) provisions:

Sales returns and rebates

Employee benefits

Allowance for doubtful debts

Depreciation of non-current assets:

Property, plant and equipment

Amortisation of non-current assets:

Leasehold improvements

Intellectual property

Development costs

Foreign exchange losses/(gains)

Consolidated	
2011	2010
\$'000	\$'000
<b>90,244</b>	<b>90,115</b>
542	-
280	-
206	158
1,028	158
<b>91,272</b>	<b>90,273</b>
19,400	19,374
25	51
168	161
2	(158)
(165)	891
(62)	332
1,034	915
477	422
989	1,332
6,052	5,100
26	(83)

## 2 Profit for the year continued

### Expenses continued

#### Employee benefits expense:

Post employment benefits – defined contribution plans

Termination benefits

#### Share based payments:

Equity-settled share-based payments

Cash-settled share-based payments

Research and Development costs

#### Operating lease rental expenses:

Minimum lease payments

#### Net costs associated with premises relocation, including (i):

o Estimated sub-lease rent shortfall

o Leasehold improvement amortisation

Consolidated	
2011	2010
\$'000	\$'000
2,198	2,175
306	127
375	324
327	976
<b>702</b>	<b>1,300</b>
2,328	2,339
1,949	2,425
1,796	-
556	-
<b>2,352</b>	<b>-</b>

(i) Accounting standards require that a provision be made for the expected shortfall in the sub-lease of Pymont premises. The net savings from the move to the new North Sydney premises will more than offset this cost over the period of the lease.

# Notes to the Financial Statements continued

## 3 Income Tax

### (a) Income tax expense

Current tax
Deferred tax
Under/(over) provided in prior years

(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:

### Profit before income tax

Income tax expense calculated at 30% of profit

### Tax Effect of:

Effect of higher tax rates on overseas income
Tax effect of non-deductible/non-taxable items:
Non-taxable income
Research and development claims
Sundry items

Reversal of withholding tax on pre-acquisition dividend

Under/(over) provision in prior years

Income tax expense attributable to profit

(c) Deferred tax asset not brought to account as an asset:  
not probable of recovery

Tax losses:

Revenue

Capital

Consolidated	
2011	2010
\$'000	\$'000
6,390	5,114
(548)	165
(306)	(128)
<b>5,536</b>	<b>5,151</b>

<b>22,229</b>	<b>22,399</b>
6,669	6,720
42	86
(162)	(231)
(608)	(787)
(99)	(79)
5,842	5,709
-	(430)
(306)	(128)
<b>5,536</b>	<b>5,151</b>

-	-
2,295	2,295
<b>2,295</b>	<b>2,295</b>

## 4 Remuneration of Auditors

### (a) Deloitte Touche Tohmatsu

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

Auditing and reviewing of financial reports

Tax compliance and consulting services

Consolidated	
2011	2010
\$	\$

202,784	194,153
82,587	98,765
<b>285,371</b>	<b>292,918</b>

### (b) Other Auditors

Auditing and reviewing of financial reports

Tax compliance services

37,494	32,078
26,199	24,085
63,693	56,163
<b>349,064</b>	<b>349,081</b>

## 5 Inventories

Finished goods:

At lower of cost and net realisable value

Consolidated	
2011	2010
\$'000	\$'000

<b>1,181</b>	<b>831</b>
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# Notes to the Financial Statements continued

## 6 Trade and Other Receivables

Current:

Trade receivables (i)

Allowance for doubtful debts

Other receivables

Non current:

Trade receivables

Other receivables

Other receivables: non-controlling interest holder

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

Past due 0 – 30 days

Past due 31 – 60 days

Past due 61+ days

Total

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

Balance at beginning of the year

Amounts written off during the year

Increase/(reduction) in allowance recognised in the profit and loss

**Balance at end of year**

Consolidated	
2011	2010
\$'000	\$'000

6,520	6,652
(455)	(542)
6,065	6,110
665	646
<b>6,730</b>	<b>6,756</b>

427	-
100	-
250	236
<b>777</b>	<b>236</b>

1,512	1,468
388	520
979	1,058
<b>2,879</b>	<b>3,046</b>

542	261
(25)	(51)
(62)	332
<b>455</b>	<b>542</b>

## 7 Other Assets

Prepayments

Other

Consolidated	
2011	2010
\$'000	\$'000
780	970
983	350
<b>1,763</b>	<b>1,320</b>

## 8 Other Financial Assets

Available-for-sale financial assets: quoted shares (i)

Security deposits

6,201	-
56	56
<b>6,257</b>	<b>56</b>

(i) The Group held 5% of the ordinary share capital of Melbourne IT Limited, an Australian listed company. Since year end the Group had sold 3,104,958 shares in Melbourne IT Limited for \$4,992 thousand. These shares were originally acquired for \$5,641 thousand.

# Notes to the Financial Statements continued

## 9 Property, Plant And Equipment

### Leasehold Improvements

At cost

Less: Accumulated amortisation

Total leasehold improvements

Consolidated	
2011	2010
\$'000	\$'000

3,490	2,464
2,267	1,234
<b>1,223</b>	<b>1,230</b>

### Plant and equipment

At cost

Less: Accumulated depreciation

Total plant and equipment

5,963	5,591
3,785	3,061
<b>2,178</b>	<b>2,530</b>
<b>3,401</b>	<b>3,760</b>

### 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.

#### Consolidated

Carrying amount at 1 January 2011

Additions

Depreciation/amortisation expense

Balance at 31 December 2011

Leasehold Improvements	Plant and Equipment	Total
\$'000	\$'000	\$'000
1,230	2,530	3,760
1,026	730	1,756
(1,033)	(1,082)	(2,115)
<b>1,223</b>	<b>2,178</b>	<b>3,401</b>

#### Consolidated

Carrying amount at 1 January 2010

Additions

Depreciation/amortisation expense

Balance at 31 December 2010

Leasehold Improvements	Plant and Equipment	Total
\$'000	\$'000	\$'000
1,614	2,154	3,768
38	1,349	1,387
(422)	(973)	(1,395)
<b>1,230</b>	<b>2,530</b>	<b>3,760</b>

## 10 Deferred Tax Asset

The balance comprises temporary differences attributable to:

Doubtful debts  
Employee benefits  
Deferred revenue  
Other provisions

Consolidated	
2011	2010
\$'000	\$'000

17	3
27	29
-	-
42	24
<b>86</b>	<b>56</b>

Details of unrecognised deferred tax assets can be found in Note 3(c)

Reconciliation:

Opening balance at 1 January  
Credited/(charged) to profit or loss  
Balance at 31 December

56	586
30	(530)
<b>86</b>	<b>56</b>

## 11 Intangibles

Intellectual property – at cost  
Accumulated amortisation

12,596	11,950
(8,987)	(7,387)
<b>3,609</b>	<b>4,563</b>

Development costs – at cost  
Accumulated amortisation

38,131	30,732
(23,549)	(17,496)
<b>14,582</b>	<b>13,236</b>
<b>27,775</b>	<b>28,639</b>
<b>45,966</b>	<b>46,438</b>

Goodwill – at cost

# Notes to the Financial Statements continued

## 11 Intangibles continued

Consolidated	
2011	2010
\$'000	\$'000

### Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the business entities acquired, as follows:

Professional Division Australia

Professional Division New Zealand

Professional Division United Kingdom

nQueueBillback

Elite

Corporate Services

10,361	10,361
1,742	1,742
313	426
1,698	2,449
2,536	2,536
11,125	11,125
<b>27,775</b>	<b>28,639</b>

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 (2012) period. Subsequent cash flows are projected using constant growth rates of 3% per annum. An average post-tax discount rate of 12.2% (2010: 13.4%) (pre-tax rate: 16%) reflecting assessed risks associated with CGU's have been applied to determine the present value of future cash flow projections. No impairment write-offs have been recognised during the year (2010: nil). Should the projected growth rates reduce to 0%, an impairment would still not arise.

Goodwill	Intellectual Property	Development Costs	Total
\$'000	\$'000	\$'000	\$'000

### Consolidated movements in intangibles

At 1 January 2011

Additions

Effect of foreign currency exchange differences

Amortisation charge

At 31 December 2011

28,639	4,563	13,236	46,438
-	35	7,398	7,433
(864)	-	-	(864)
-	(989)	(6,052)	(7,041)
<b>27,775</b>	<b>3,609</b>	<b>14,582</b>	<b>45,966</b>

At 1 January 2010

Additions

Amortisation charge

At 31 December 2010

28,639	5,921	10,710	45,270
-	(26)	7,626	7,600
-	(1,332)	(5,100)	(6,432)
<b>28,639</b>	<b>4,563</b>	<b>13,236</b>	<b>46,438</b>

## 12 Trade and Other Payables

Current:

Trade payables and sundry accruals (i)

Employee benefits (Note 18)

(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.

Consolidated	
2011	2010
\$'000	\$'000
4,184	4,420
1,286	1,418
<b>5,470</b>	<b>5,838</b>

## 13 Borrowings

Current:

Bank overdraft (i)

Other borrowings

i) Effective 31 December 2011 the consolidated entity renewed bank facilities totaling \$14.5 million. The facility comprises a bank overdraft facility, and a multi option facility (which includes a bill facility and bank guarantee/transactional facility). The facility covers a 1 year term, and then will be subject to annual review. The facility is secured over the Australian net assets of the Group (\$48.3 million at 31 December 2011). The facilities, apart from the bank guarantee, are undrawn as at balance date.

-	-
-	2
<b>-</b>	<b>2</b>

### 2011

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

Available

Used

Unused

Bank overdraft	Bill facility	Bank guarantee facility
\$'000	\$'000	\$'000
1,000	10,000	3,500
-	-	1,121
1,000	10,000	2,379

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

0-12 months

Weighted average interest rate

-	-	1,121
8.10%	6.43%	-

# Notes to the Financial Statements continued

## 14 Provisions

Current:

Sales returns, volume rebates

Employee benefits (Note 18)

Surplus premises

Commissions and sundry provisions

Non-current:

Employee benefits (Note 18)

Surplus premises

Consolidated	
2011	2010
\$'000	\$'000
182	181
2,087	1,377
590	-
643	449
<b>3,502</b>	<b>2,007</b>
594	1,337
1,047	-
<b>1,641</b>	<b>1,337</b>

### Movement in provisions

Movements in each class of provision during the financial year, excluding employee benefits, are set out below:

Surplus Premises	Sales returns, volume rebates	Commissions and sundry	Total
\$'000	\$'000	\$'000	\$'000
-	181	449	630
(715)	-	-	(715)
2,352	1	194	2,547
<b>1,637</b>	<b>182</b>	<b>643</b>	<b>2,462</b>

### 2011 Consolidated

Carrying amount at the start of the year

Amounts paid

Additional provisions recognised

Carrying amount at the end of the year

## 15 Working capital deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of \$3,255 thousand (December 2010: excess of current assets over current liabilities of \$2,260 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Available bank overdraft and bill facilities at balance date total \$11 million. Furthermore, included in current liabilities is deferred revenue of \$6,287 thousand (December 2010: \$5,742 thousand), settlement of which will involve substantially lower cash flows.

## 16 Deferred Tax Liabilities

Consolidated	
2011	2010
\$'000	\$'000

The temporary differences are attributable to:

Doubtful debts	(112)	(137)
Employee benefits	(1,235)	(1,220)
Sales returns and volume rebates	(55)	(54)
Deferred revenue	(574)	(641)
Difference between book and tax value of non-current assets	4,467	4,307
Other provisions	(1,402)	(648)
	<b>1,089</b>	<b>1,607</b>

Details of unrecognised deferred tax assets can be found in Note 3(c)

Reconciliation:

Opening balance at 1 January	1,607	1,972
Charged (credited) to profit or loss	(518)	(365)
Balance at 31 December	<b>1,089</b>	<b>1,607</b>

# Notes to the Financial Statements continued

## 17 Parent Entity Disclosures

### Financial position

#### Assets

Current assets

Non-current assets

#### Liabilities

Current liabilities

Non-current liabilities

#### Equity

Share capital

Available-for-sale revaluation reserve

Share based payments reserve

Retained earnings

### Financial performance

Profit for the year

Other comprehensive income

Total comprehensive income

### Capital commitments for the acquisition of property, plant and equipment

Not longer than 1 year

### Other

Reckon Limited assets have been used as security for the bank facilities set out in Note 13.

The parent entity has no contingent liabilities.

	Parent	
	2011	2010
	\$'000	\$'000
<b>Assets</b>		
Current assets	6,172	9,054
Non-current assets	62,130	55,534
	<b>68,302</b>	<b>64,588</b>
<b>Liabilities</b>		
Current liabilities	9,566	12,918
Non-current liabilities	8,842	3,596
	<b>18,408</b>	<b>16,514</b>
<b>Equity</b>		
Share capital	15,752	18,049
Available-for-sale revaluation reserve	(1,067)	-
Share based payments reserve	556	631
Retained earnings	34,653	29,394
	<b>49,894</b>	<b>48,074</b>
<b>Financial performance</b>		
Profit for the year	15,855	17,205
Other comprehensive income	(1,067)	-
Total comprehensive income	<b>14,788</b>	<b>17,205</b>
<b>Capital commitments for the acquisition of property, plant and equipment</b>		
Not longer than 1 year	-	1,042

## 18 Employee Benefits

Consolidated	
2011	2010
\$'000	\$'000

The aggregate employee benefit liability recognised and included in the financial statements is as follows:

Accrued annual leave:

Current (Note 12)

Long term incentive:

Current (Note 14)

Non-current (Note 14)

Provision for long service leave:

Current (Note 14)

Non-current (Note 14)

1,286	1,418
1,073	526
211	892
1,014	851
383	445
<b>3,967</b>	<b>4,132</b>

### Long-term incentive plan

The long-term incentive plan was approved at the Special General Meeting on 20 December 2005, and comprises three possible methods of participation: an option plan, a performance share plan and a share appreciation plan. The Board has discretion to make offers to applicable employees to participate in any of these plans. Options granted and/or performance shares awarded (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. A 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. The Company's initial TSR target will be 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. Only 50% of options or performance shares become exercisable or vest if the initial performance criterion is satisfied. The extent to which the balance of options or performance shares become exercisable or vest will depend on the extent to which the initial performance criterion is exceeded (i.e. the extent to which the Company exceeds a median ranking against the TSR position of the comparator group of companies).

In 2011 performance shares were also awarded with longer term vesting periods as a long term incentive. The principal vesting condition is that participants must remain employed for the term, in this case, to achieve 100% vesting employees must remain in employment for 10 years from the date of initial offer, with a portion vesting after 7 years.

The share appreciation rights plan represents an alternative remuneration element (to offering options or 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 if performance criteria are met. The performance criteria are fixed by the Board in the exercise of its discretion. At present these are the same as the TSR target set for the right to exercise options or for performance shares to vest.

No options were issued during the year (2010: Nil).

282,258 (2010: 357,873) appreciation rights and 269,204 (2010: 214,190) performance shares, were issued during the year. The fair value of these rights was 62 cents (2010: 48.9 cents) and the shares were \$1.912 (2010: \$1.48), using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of \$2.38; expected volatility of 32.9%; dividend yield of 3.2%; and a risk free rate of 5.2%. The expense recognised in 2011 for appreciation rights/performance shares was \$701,914 (2010: \$1,299,810).

# Notes to the Financial Statements continued

## 18 Employee Benefits continued

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	
			2011	2010	2011	2010	2011	2010
Jan'08	Dec'10	252,477	-	-	-	245,145	-	-
Jan'09	Dec'11	375,475	-	3,175	365,951	6,349	-	365,951
Jan'10	Dec'12	214,190	15,315	3,604	30,631	1,801	162,839	208,785
Jan'11	Dec'13	156,704	-	-	-	-	156,704	-
Jan'11	Dec'17	112,500	-	-	-	-	112,500	-

312,815 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	
			2011	2010	2011	2010	2011	2010
Jan'08	Dec'10	495,356	-	-	-	495,356	-	-
Jan'09	Dec'11	888,324	-	-	888,324	-	-	888,324
Jan'10	Dec'12	357,873	-	-	-	-	357,873	357,873
Jan'11	Dec'13	282,258	-	-	-	-	282,258	-

## Reckon Limited Employee Option Plans

The Company has previously had two ownership-based remuneration schemes:

### Executive share option plan

The executive share option plan has been terminated.

### Executive share option plan No. 2

The Reckon Limited Executive Share Option Plan No. 2 was established on 19/7/2000. Under the provisions of the plan, the directors may grant options over unissued shares in the Company to executives and directors of the Company (or their associates) or subsidiaries of the Company selected by the directors from time to time, subject to the ASX Listing Rules and the Corporations Act 2001.

Options are granted for a five-year period and 50% of each new tranche becomes exercisable after each of the first two anniversaries of the grant date. The entitlements are vested as soon as they are exercisable (i.e. they are not conditional on future employment). Each option entitles the holder to one ordinary share.

Amounts receivable on exercise of any options are recognised as share capital. Options exercised during the year were exercised with an average exercise price of \$0.72 (2010: \$0.75).

## 18 Employee Benefits *continued*

Set out below are summaries of options granted under the Executive Share Option Plan No. 2.

Grant date	Expiry date	Exercise Price	Options Initially Granted	Options lapsed during the year		Options exercised and shares issued during the year		Options vested and available at the end of the year	
				2011	2010	2011	2010	2011	2010
Sep 03	Sep 08	\$0.505	115,002	-	-	-	950	-	-
Dec 03	Dec 08	\$0.619	48,890	-	-	-	1,419	-	-
Jan 04	Jan 09	\$0.551	1,061,159	-	-	-	633	-	-
Dec 04	Dec 09	\$0.796	250,554	-	-	-	171	-	-
Mar 05	Mar 10	\$0.743	75,555	-	41,166	-	16,361	-	-
Jul 05	Jul 10	\$0.741	79,999	-	30,349	-	19,527	-	-
Sep 05	Sep 10	\$0.779	113,887	-	39,319	-	13,722	-	-
Dec 05	Dec 10	\$0.722	144,445	-	55,421	12,666	13,722	-	12,666
				-	<b>166,255</b>	<b>12,666</b>	<b>66,505</b>	-	<b>12,666</b>
								-	<b>12,666</b>

Number of shares that can be issued for unexercised options

## 19 Issued Capital

### Fully Paid Ordinary Share Capital

Balance at beginning of financial year	133,384,060	18,833	133,317,555	18,766
Transfer from share-based payments reserve for options exercised during the year	-	-	-	18
Share buyback	(557,054)	(1,366)	-	-
Issue of shares	12,666	9	66,505	49
Balance at end of financial year	<b>132,839,672</b>	<b>17,476</b>	<b>133,384,060</b>	<b>18,833</b>

	2011		2010	
	No.	\$'000	No.	\$'000
Balance at beginning of financial year	133,384,060	18,833	133,317,555	18,766
Transfer from share-based payments reserve for options exercised during the year	-	-	-	18
Share buyback	(557,054)	(1,366)	-	-
Issue of shares	12,666	9	66,505	49
Balance at end of financial year	<b>132,839,672</b>	<b>17,476</b>	<b>133,384,060</b>	<b>18,833</b>

### Less Treasury shares

Balance at beginning of financial year	574,736	785	620,620	729
Shares purchased in current period	559,926	1,389	197,030	370
Shares lapsed	(15,315)	(28)	(6,779)	(10)
Lapsed shares utilised	22,093	38	17,160	20
Shares vested	(396,582)	(460)	(253,295)	(324)
Balance at end of financial year	<b>744,858</b>	<b>1,724</b>	<b>574,736</b>	<b>785</b>
Balance at end of financial year net of treasury shares	<b>132,094,814</b>	<b>15,752</b>	<b>132,809,324</b>	<b>18,048</b>

Balance at beginning of financial year	574,736	785	620,620	729
Shares purchased in current period	559,926	1,389	197,030	370
Shares lapsed	(15,315)	(28)	(6,779)	(10)
Lapsed shares utilised	22,093	38	17,160	20
Shares vested	(396,582)	(460)	(253,295)	(324)
Balance at end of financial year	<b>744,858</b>	<b>1,724</b>	<b>574,736</b>	<b>785</b>
Balance at end of financial year net of treasury shares	<b>132,094,814</b>	<b>15,752</b>	<b>132,809,324</b>	<b>18,048</b>

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.

The shares bought back in the current year were cancelled immediately.

12,666 (2010: 66,505) options were exercised during the year with an average exercise price of \$0.72. Details of the options that were exercised and further details in respect of the share option plans are contained in Note 18 to the financial statements. Total consideration for options exercised during the year is \$9,145 (2010: \$49,793).

# Notes to the Financial Statements continued

## 20 Reserves

Foreign currency translation reserve

Balance at beginning of financial year

Translation of foreign operations

Balance at end of financial year

Available-for-sale asset revaluation reserve

Balance at beginning of financial year

Fair value adjustments of financial assets

Balance at end of financial year

Share-based payments reserve

Balance at beginning of financial year

Share-based payment expense

Treasury shares vested/lapsed

Transfer to share capital (options exercised)

Balance at end of financial year

Consolidated	
2011	2010
\$'000	\$'000
(694)	(400)
(875)	(294)
<b>(1,569)</b>	<b>(694)</b>
-	-
(1,067)	-
<b>(1,067)</b>	-
631	639
375	324
(450)	(314)
-	(18)
<b>556</b>	<b>631</b>
<b>(2,080)</b>	<b>(63)</b>

### 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(f).

(b) Available-for-sale asset revaluation reserve

Fair value adjustments of financial assets are taken to the available-for-sale asset revaluation reserve.

(c) 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.

## 21 Retained Earnings

Balance at beginning of financial year

Net profit

Dividends

Balance at end of financial year

Consolidated	
2011	2010
\$'000	\$'000
31,156	24,625
16,062	16,478
(10,597)	(9,947)
<b>36,621</b>	<b>31,156</b>

## 22 Earnings Per Share

Basic earnings per share

Diluted earnings per share

Weighted average number of ordinary shares used in the calculation of basic earnings per share

Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share

Alternative earnings per share is based on profit for the year, adjusted for the after tax impact of relocation costs of \$1,646 thousand (i.e. adjusted profit of \$17,708 thousand).

Consolidated	
2011	2010
cents	cents
12.1	12.4
12.0	12.4
132,586,637	132,779,303
133,331,495	133,354,038

## 23 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2011 (2010: Nil).

## 24 Commitments For Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2011 (2010: \$1,042 thousand).

Consolidated	
2011	2010
\$'000	\$'000

### (b) Lease Commitments

#### Operating Leases

Within 1 year

Later than 1 year and not longer than 5 years

Later than 5 years

2,559	2,520
8,332	10,907
1,767	2,127
<b>12,658</b>	<b>15,554</b>

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.

# Notes to the Financial Statements continued

## 25 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2011 %	2010 %
<b>Parent Entity</b>			
Reckon Limited	Australia		
<b>Subsidiaries</b>			
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 Pacrim Pty Limited*	Australia	100	100
Reckon Training Pty Limited*	Australia	90	90
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Advanced Professional Solutions Pty Limited	Australia	100	100
Advanced Professional Solutions Limited	New Zealand	100	100
Advanced Professional Solutions Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
Independent Corporate Services Pty Limited*	Australia	100	100
Quickdocs.com.au Pty Limited	Australia	100	100
Recount Expense Management Pty Limited	Australia	100	100
Billback Systems (UK) Limited	United Kingdom	75	100
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	74	67

\* Deregistered on 16 February 2012.

All shares held are ordinary shares.

## 26 Related Party Disclosures

Consolidated		
2011	2010	
\$	\$	
Short term benefits	3,522,881	3,963,451
Post-employment benefits	223,240	354,748
Share based payments	603,170	1,273,156
<b>4,349,291</b>	<b>5,591,355</b>	

### (a) Key Management Personnel Remuneration

Short term benefits

Post-employment benefits

Share based payments

The names of and positions held by the key management are set out in Note 26(d). Further details of the remuneration of key management are disclosed in the Directors' Report.

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

There were no transactions with directors apart from those disclosed in this note.

### (c) Other Related Party Transactions

#### Intuit Inc

Intuit Inc is a related party of Intuit Ventures Inc which is a significant shareholder (11.2%) in Reckon Limited. Intuit Inc provides the rights for Reckon to market and distribute Intuit software throughout Australia and New Zealand. In return for this, Intuit receives a royalty payment based on sales made throughout the territory. These royalties amounted to \$4,733,481 (2010: \$4,714,664) which is expensed in the month that the associated product was sold. The balance due at 31 December 2011 is \$158,786 (2010: \$167,898).

On 22 March 2012, Reckon announced as a consequence of the gradual divergence of the respective online ambitions of Reckon and Intuit Inc, that they have entered notice period ending on 10 February 2014, when Reckon's licensing agreement with Intuit will be formally terminated.

From a Reckon Limited perspective it is business as usual until 10 February 2014, whereafter Reckon will enjoy royalty free rights to continue selling, and may independently develop the then current Intuit desktop technology and QuickBooks Hosted technology for a 100 year period, resulting in an annualised royalty saving of about \$6 million. After 10 February 2014 Reckon will not have access to the Intuit brands.

In the online market, Reckon continues to develop products and will be rolled out over the coming months. The strategy remains to provide fully localised products specifically for Reckon's markets hosted locally, to achieve ambitions of providing integrated solutions to achieve greater efficiency for accountants, bookkeepers, and their business clients.

# Notes to the Financial Statements continued

## 26 Related Party Disclosures continued

### d) Directors' and Key Management Equity Holdings

<b>Options and Shareholding 2011<sup>1</sup></b>		<b>Shareholding</b>	<b>Shareholding</b>	<b>Performance</b>	<b>Performance</b>	<b>Performance</b>	<b>Performance</b>
<b>Office</b>		<b>at start of</b>	<b>at end of</b>	<b>shares at start of</b>	<b>shares vested in</b>	<b>shares issued in</b>	<b>shares held at end</b>
		<b>2011</b>	<b>2011<sup>2</sup></b>	<b>2011</b>	<b>2011</b>	<b>2011</b>	<b>of 2011</b>
<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	10,508,000	10,508,000	0	0	0	0
<b>Brian Armstrong<sup>3</sup></b>	CEO, Professional Division	776,107	550,025	216,798	111,583	0	0
<b>Brian Coventry</b>	CEO, Professional Division	109,589	50,000	20,901	13,333	23,080	30,648
<b>John Thame</b>	Chairman, Non-executive Director	19,000	19,000	0	0	0	0
<b>Myron Zlotnick</b>	General Counsel & Company Secretary	50,215	95,974	107,084	47,619	46,160	105,625
<b>Ian Ferrier</b>	Non-executive Director	0	0	0	0	0	0
<b>Chris Hagglund</b>	Chief Financial Officer	162,454	255,073	155,749	72,619	57,268	140,398
<b>Gavin Dixon</b>	CEO Business Division	124,362	290,284	126,898	80,952	35,971	81,917
<b>Richard Hellers</b>	President & CEO nQueue Billback Division	0	0	0	0	0	0

1 No options were issued in 2011.

2 Shareholdings at the date of the Director's Report remain unchanged.

3 Mr. Armstrong's employment ended on 31 December 2011 (15,315 performance shares lapsed).

## 26 Related Party Disclosures *continued*

### d) Directors' and Key Management Equity Holdings *continued*

Options and Shareholding 2010									
	Office	Shareholding at start of 2010	Shareholding at end of 2010	Options at start of 2010	Options at end of 2010 <sup>1</sup>	Performance shares at start of 2010	Performance shares vested in 2010	Performance shares issued in 2010	Performance shares held at end of 2010
<b>Greg Wilkinson</b>	Deputy Chairman, Non-executive Director	7,450,000	7,450,000	0	0	0	0	0	0
<b>Clive Rabie</b>	CEO, Executive Director	10,508,000	10,508,000	0	0	0	0	0	0
<b>Brian Armstrong</b>	CEO, Professional Division	768,673	776,107	0	0	229,508	58,656	45,946	216,798
<b>Brian Coventry</b>	MD, Professional Division United Kingdom	297,589	109,589	0	0	20,665	7,332	7,568	20,901
<b>John Thame</b>	Chairman, Non-executive Director	19,000	19,000	0	0	0	0	0	0
<b>Myron Zlotnick</b>	General Counsel & Company Secretary	28,204	50,215	0	0	107,075	27,018	27,027	107,084
<b>Ian Ferrier</b>	Non-executive Director	0	0	0	0	0	0	0	0
<b>Chris Hagglund</b>	Chief Financial Officer	111,130	162,454	0	0	165,857	51,324	41,216	155,749
<b>Nigel Boland</b>	GM, Development Professional Division	13,039	20,371	0	0	20,665	7,332	7,568	20,901
<b>Paul James<sup>2</sup></b>	GM Professional Division Australia	0	15,482	0	0	16,856	15,482	5,405	0
<b>Gavin Dixon</b>	CEO Business Division	67,539	124,362	0	0	137,775	56,823	45,946	126,898
<b>Grant Linton</b>	GM, Professional Division New Zealand	0	0	0	0	9,524	0	5,405	14,929
<b>Russell Scott</b>	GM Reckon Docs	0	0	0	0	0	0	0	0
<b>Richard Hellers</b>	President & CEO nQueue Billback Division	0	0	0	0	0	0	0	0

1 No options were issued in 2010.

2 Mr. James' employment ended on 31 December 2010 (6,779 performance shares lapsed).

# Notes to the Financial Statements continued

## 27 Notes to the Statement of Cash Flows

### (a) Reconciliation of Cash

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)

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

Consolidated	
2011	2010
\$'000	\$'000

4,703	8,095
<b>4,703</b>	<b>8,095</b>

### (b) Reconciliation of Profit After Income Tax To Net Cash

#### Flows From Operating Activities

Profit after income tax  
 Depreciation and amortisation of non-current assets  
 Non-cash employee benefits expense – share based payment  
 Increase/(decrease) in current tax liability/asset  
 Increase/(decrease) in deferred tax balances  
 Unrealised foreign currency translation amount  
 (Increase)/decrease in assets:  
     Current receivables  
     Current inventories  
     Other current assets  
     Non-current receivables  
 Increase/(decrease) in liabilities:  
     Current trade payables  
     Other current liabilities  
     Other non-current liabilities  
 Net cash inflow from operating activities

16,693	17,248
9,108	7,769
375	324
1,445	107
(548)	165
18	(294)
26	2,396
(350)	328
(443)	36
(541)	-
(368)	11
1,815	(323)
(411)	413
<b>26,819</b>	<b>28,180</b>

## 28 Non-Controlling Interest

Interest in:

Share Capital

Accumulated profits

Consolidated	
2011	2010
\$'000	\$'000
-	-
203	-
<b>203</b>	<b>-</b>

## 29 Dividends – Ordinary Shares

Final dividend for the year ended 31 December 2010 of 4.5 cents (2009: 4.0 cents) per share franked to 90% paid on 4 March 2011

Interim dividend for the year ended 31 December 2011 of 3.5 cents per share franked to 90% (2010: 3.5 cents) paid on 9 September 2011

Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)

5,968	5,307
4,629	4,640
<b>10,597</b>	<b>9,947</b>
<b>1,957</b>	<b>1,441</b>

## 30 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 \$4,703 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 3.3% (2010: 4.2%). 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 \$23 thousand (2010: \$40 thousand).

Borrowings by the consolidated entity at the reporting date were \$nil. Borrowings during the year attracted an average interest rate of 8.10% (2010: 8.26%) on overdraft facilities and 6.43% on bank bill facilities (2010: 6.14%).

The Board of Directors monitors these exposures and does not presently hedge against these risks.

The maturity profile for the consolidated entity's cash (\$4,703 thousand) and borrowings (\$0) that are exposed to interest rate risk is less than 1 year.

# Notes to the Financial Statements continued

## 30 Financial Instruments continued

### (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.

### (e) Equity Price Risk

The consolidated entity is exposed to equity price risk as a consequence of its investments classified as available-for-sale assets, comprising quoted shares.

The sensitivity analysis below has been calculated based upon the consolidated entity's exposure to market prices at reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. At the reporting date, if market prices had been 5% higher or lower (being the volatility considered relevant by management), and all other variables were held constant, the consolidated entity's equity position would increase/decrease by \$310 thousand (2010: nil).

### (f) 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	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Euro	-	-	129	21

At 31 December 2011, if the Euro weakened against the UK Sterling 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 \$18 thousand (2010: \$2 thousand). At 31 December 2011, 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 \$95 thousand (2010: \$37 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.

## **30 Financial Instruments** *continued*

### **(g) Liquidity**

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

### **(h) 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.

### **(i) 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.

All financial instruments that are measured subsequent to initial recognition at fair value, being available-for-sale quoted shares totaling \$6,201 thousand at balance date, are classified as Level 1 assets, being assets whose fair value measurements are derived from quoted prices in active markets for identical assets.

# Notes to the Financial Statements continued

## 31 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 Division • Professional Division • nQueueBillback Division**

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 Division – development, distribution and support of personal financial and accounting software, as well as related products and services to professional partners. Products sold in this division include QuickBooks, Quicken, ReckonDocs and Reckon Elite.
- Professional Division – development, distribution and support of practice management, tax, client accounting, cost management and related software under the APS and BillBack brands.
- nQueue Billback Division – distribution and support of cost recovery, cost management and related software predominately to the legal market.

### Segment revenues and results

	Business Division		Professional Division		nQueue Billback Division		Total	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Operating revenue</b>	<b>55,849</b>	<b>56,050</b>	<b>25,611</b>	<b>24,753</b>	<b>8,784</b>	<b>9,312</b>	<b>90,244</b>	<b>90,115</b>
Other revenue							1,028	158
Total revenue							<b>91,272</b>	<b>90,273</b>
<b>Segment EBITDA</b>	<b>20,613</b>	<b>20,720</b>	<b>12,252</b>	<b>10,182</b>	<b>3,475</b>	<b>3,764</b>	<b>36,340</b>	<b>34,666</b>
Depreciation and amortisation	(2,205)	(2,017)	(5,475)	(5,021)	(872)	(731)	(8,552)	(7,769)
<b>Total segment profit before tax</b>	<b>18,408</b>	<b>18,703</b>	<b>6,777</b>	<b>5,161</b>	<b>2,603</b>	<b>3,033</b>	<b>27,788</b>	<b>26,897</b>
Central administration costs							(4,067)	(4,495)
Premises relocation costs							(2,352)	-
Other revenue							1,028	158
Finance costs							(168)	(161)
Profit before income tax							<b>22,229</b>	<b>22,399</b>
Income tax expense							(5,536)	(5,151)
<b>Profit for the year</b>							<b>16,693</b>	<b>17,248</b>

The revenue reported above represents revenue generated from external customers.

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

The Professional Division in the 2010 annual report, included Billback UK. Effective 1 January 2011 25% of Billback Systems (UK) Limited was sold to nQueue Inc in return for an additional 7% of nQueue Billback LLC, and management responsibility transferred to the nQueue Billback Division. The 2010 results have been restated to include Billback UK in the nQueue Billback Division in line with 2011.

### 31 Segment Information *continued*

Segment assets and liabilities	Assets		Liabilities		Additions to non-current assets	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Business Division	32,799	29,308	18,677	15,794	2,679	2,196
Professional Division	34,239	36,052	5,148	6,215	5,340	5,461
nQueueBillback Division	11,316	8,760	4,033	2,970	1,170	1,330
Corporate Division	-	-	-	-	7,268	-
Total of all segments	78,354	74,120	27,858	24,979	16,457	8,987
Eliminations	(7,490)	(6,572)	(7,490)	(6,572)	-	-
Consolidated	<b>70,864</b>	<b>67,548</b>	<b>20,368</b>	<b>18,407</b>	<b>16,457</b>	<b>8,987</b>

#### (b) Geographical information

	Revenues from external customers		Non-current assets	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Australia	74,291	73,199	42,703	37,137
Other countries (i)	15,953	16,916	13,784	13,409
	<b>90,244</b>	<b>90,115</b>	<b>56,487</b>	<b>50,546</b>

(i) No single country outside of Australia is considered to generate revenues which are material to the Group.

#### (c) Segment revenues

	External sales	
	2011	2010
	\$'000	\$'000
Business and wealth management products	49,859	49,694
Accounting industry products	29,199	28,298
Legal industry products	11,186	12,123
	<b>90,244</b>	<b>90,115</b>

# Notes to the Financial Statements continued

## 32 Subsequent Events

Subsequent to the end of the financial year:

### Share buyback

On 7 February 2012 the Board of Directors recommended to continue the on-market share buyback of not more than 10% of the shares in the company.

### Dividend

The Board has declared a dividend of 4.5 cents per share to shareholders on 7 February 2012. The dividend will be 90% franked. The record date for the dividend is 17 February 2012. The aggregate amount of the proposed dividend paid on 2 March 2012 out of retained profits at 31 December 2011, but not recognised as a liability at the end of the year is \$5,943 thousand. The impact on the franking account balance of unrecognised dividends is \$2,292 thousand.

### Available-for-sale financial assets

3,104,958 shares in Melbourne IT Limited have been sold for \$4,992 thousand. These were originally acquired for \$5,641 thousand.

### Intuit licence

On 22 March 2012, Reckon announced that it had entered a notice period ending on 10 February 2014, when Reckon's licensing agreement with Intuit will be formally terminated.

In the period between 22 March 2012 and 10 February 2014, royalties continue to be paid in the normal course.

From 10 February 2014 Reckon will enjoy royalty free rights to continue selling, and may independently develop, the then current Intuit desktop technology and QuickBooks Hosted technology for a 100 year period, utilising its own brands.

## 33 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 28 March 2012.

# Additional Information as at 14 March 2012

(Unaudited)

## Twenty Largest Holders of Quoted Equity Securities

### Ordinary Shareholder

	Number	Percentage
National Nominees Limited	17,880,686	13.46
Intuit Ventures Inc	14,828,304	11.16
HSBC Custody Nominees (Australia) Limited	11,822,928	8.90
JP Morgan Nominees Australia Limited	10,198,220	7.68
Gregory John Wilkinson	6,147,800	4.63
Cogent Nominees Pty Limited	4,986,927	3.75
DJZ Investments Pty Limited	4,690,000	3.53
UBS Nominees Pty Limited	4,549,803	3.43
Australian Executor Trustees NSW Ltd	4,547,687	3.42
Mr Clive Rabie and Mrs Kerry Rose Rabie	4,285,611	3.23
RBC Dexia Investor Services Australia Nominees Pty Ltd[BKCUST A/C]	3,911,167	2.94
RBC Dexia Investor Services Australia Nominees Pty Ltd[PIPOOL A/C]	3,640,399	2.74
Citicorp Nominees Pty Limited	2,899,757	2.18
Citicorp Nominees Pty Limited [Colonial First State Inv A/c]	1,836,672	1.38
Mr Stephen James Rickwood	1,601,062	1.21
Mr Clive Alan Rabie	1,532,389	1.15
Rawform Pty Ltd	1,302,200	0.98
Mr Philip Ross Hayman	1,073,636	0.81
Reckon Australia Pty Ltd	744,679	0.56
Graymatter Enterprises Pty Ltd	625,001	0.47
	<b>103,104,928</b>	<b>77.62</b>

## Number of Holders of Equity Securities

### Ordinary Share Capital

132,839,672 fully paid ordinary shares are held by 3,779 individual shareholders as at 14 March 2012.

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 71.

# Additional Information as at 14 March 2012 continued

(Unaudited)

## Distribution of Holders of Equity Securities

As at 14 March 2012

Number of Ordinary Shares	Number of Shareholders
1 – 1,000	922
1,001 – 5,000	1,752
5,001 – 10,000	557
10,001 – 100,000	498
100,001 and over	50
<b>Total</b>	<b>3,779</b>

## Substantial Shareholders

As at 14 March 2012

	Ordinary Shares (Number)	Ordinary Shares (Percentage)
National Nominees Limited	17,880,686	13.46
Intuit Ventures Inc	14,828,304	11.16
HSBC Custody Nominees (Australia) Limited	11,822,928	8.90
Mr Clive Rabie and Mrs Kerry Rose Rabie	10,508,000	7.91
JP Morgan Nominees Australia Limited	10,198,220	7.68
Gregory John Wilkinson	7,450,000	5.61

### **Principal Registered 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

### **Auditors**

Deloitte Touche Tohmatsu  
225 George Street  
Sydney NSW 2000

### **Principal Administration Office**

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

### **Stock Exchange Listings**

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

### **Company Secretary**

Mr Myron Zlotnick

# Additional Information as at 14 March 2012 continued

## (Unaudited)

### Annual General Meeting

The Annual General Meeting for Reckon Limited will be held on 22 May 2012 at 10am 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.

### Important Information – Corporate Notices

Securityholders will be aware that recent legislative changes have impacted the options to 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 opting in to receive ALL NOTICE 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'
- Select 'Update my details' tab and click on 'eCommunications Options'
- Type 'RKN' in the Company Code field
- You will need to enter your personal security information: Holder Identification Number (HIN) or Securityholder Reference Number (SRN); family or company name, postcode or country (if outside Australia); and click 'Submit'
- After you have entered 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). For web enquiries, select the 'Contact Us' tab on the top of the 'Investor Centre' page.

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