



Reckon®

2018 | Annual Report

Reckon Limited Annual Report

ABN 14 003 348 730

For the Financial Year Ended 31 December 2018

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Message from the Chairman and the Group CEO

2018 was a disruptive year for Reckon, marked by the proposed sale of the Accountant Practice Management Group to MYOB Limited that did not complete. The business still showed extraordinary resilience and we continued to invest in our existing products and clients as well as develop new products to complement our existing range and which will in turn provide future revenue growth opportunities.

The profitability of the continuing business has increased, with underlying NPAT increasing by 3%. We are pleased to report that, even with the disruption throughout 2018, we have every confidence in the Reckon business as a whole.

We have strategies in place for all our businesses and the board and management remains attentive to the whole of the business.

We are clear on our market position and the strength of each of our businesses. We have an ecosystem of solutions for small businesses in Australia, New Zealand and the UK. We have the market leading platform for accountants in Australia and New Zealand with Reckon APS, and we provide cost recovery scan and print solutions to some of the largest legal firms around the world with nQueue.

In the Business Group, comprised principally of the Reckon One, Reckon Accounts Hosted, and Reckon Accounts products we continued to enhance our existing product range as well as identify new products and new markets. For our flagship cloud product, Reckon One, we enhanced our clients bank data experience and implemented Single Touch Payroll. Reckon One is the most affordable cloud accounting and single touch payroll compliant software available to Australian small businesses. We also finalised a white label partnership agreement with the IPA, providing an IPA branded solution, IPA Books+ specific for IPA members and their clients. We enhanced our Reckon Accounts Hosted platform and continued to maintain Reckon Accounts which has a loyal customer base. For both Reckon Accounts Hosted and Reckon Accounts we further developed our connected strategy of releasing new cloud-based functionality integrated into those solutions. We acquired the Better Clinics Practice Management solution that provides a CRM and scheduling tool for allied health professionals. After many years of investing in new cloud products for this business we believe we are well positioned to show growth as we enter a more aggressive sales and marketing phase.

In the Accountant Practice Management Group (Reckon APS) business we continue to maintain excellence in our service levels and sophistication of functionality. This was evident from customer feedback during the regulatory review undertaken by the ACCC and NZCC of the proposed sale of the Reckon APS business. It is clear that our Reckon APS customers want us to succeed, they enjoy the product functionality and the service levels they receive, and they do not want to go to competitors' products. We worked hard all of 2018 to make sure that we maintained and updated the products in the Reckon APS suite to meet the continued demand for enterprise practice management software. At the same time we continued to pursue a strategy of cloudification of Reckon APS products to meet new demands for cloud-based solutions. We released Practice Management Version 11, our largest release of new cloud functionality in many years. This new release has further enhanced our open architecture allowing us to integrate with many leading 3rd party software applications to help accounting firms have an integrated platform across all of their service lines.

In the Legal Practice Management Group, we are starting to see signs of growth from improved scan and print solutions. The cost recovery products continue to provide a stable revenue base for this business. The business is generally being re-positioned from pure cost-recovery to a workflow expert solution covering cost recovery, print management and advanced scanning.

All of our businesses provide products to cross sell but also work well independently and we have a clear focus on leveraging both opportunities.

At the beginning of the second half of 2018 we announced important changes to the management structure of the company and we are confident that we have the right leadership and management teams in place to execute our strategies.

As our results show, we still generate excellent cash flow with stable EBITDA and NPAT and have an excellent foundation of financial management efficiency to sustain and grow the company.

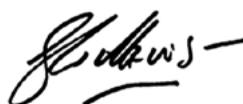
We are not naïve or arrogant about the competitive landscape in which we operate. We accept that there are challenges. But we do have strategies about how best to compete in this market. We aim to focus on a cloud first strategy, expand our product range and develop new markets. Specifically we are looking to develop products that will differentiate us from the competition, and to open new markets that our competitors don't focus on.

We will continue to internally develop or look for targeted product acquisitions that complement and differentiate our product offerings and customer base. Shareholders will be aware that we have traditionally been circumspect about these sorts of acquisitions. This means that we view ourselves as entering a new growth phase and our future investment and cash and debt management will reflect that. We will still continue to assess all strategic or corporate opportunities to deliver value to shareholders.

All in all 2019 poses an exciting year for Reckon Limited. We are grateful for the ongoing loyalty and support of our shareholders, customer base and employees and we hope that together we have a successful 2019.



Sam Allert
Group CEO



Greg Wilkinson
Chairman

Directors' Report

The Directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2018

Ian Ferrier AM FCA

Independent Non-Executive Director, Independent Non-Executive Chairman, retired 1 July 2018

Ian Ferrier is a Fellow of the Institute of Chartered Accountants in Australia. He has extensive experience in company corporate recovery and turn around practice. He is also a director of a number of private and public companies. Ian is Chairman of Goodman Group Limited (since 2003) and a director of Energy One Limited. He has significant experience in property and development, tourism, manufacturing, retail, hospitality and hotels, infrastructure and aviation and service industries. Ian joined the board on 17 August 2004. Ian was Chairman of the board until 1 July 2018.

Greg Wilkinson

Independent Non-Executive Deputy Chairman until 30 June 2018, Chairman from 1 July 2018

Greg Wilkinson has over 30 years experience in the computer software industry. Greg entered the industry in the early 1980s in London where he managed Caxton Software, which became one of the UK's leading software publishers. Greg co-founded Reckon in 1987 and was the Chief Executive Officer until February 2006. He was appointed to the position of Deputy Chairman in February 2006 and became a member of the board of the listed entity on 19 July 1999. He was appointed to the Audit & Risk Committee in February 2010 and Remuneration Committee in December 2011. He is also an investor and mentor to a number of cloud based start-up companies. Greg was appointed Chairman on 1 July 2018.

Philip Hayman

Independent Non-Executive Director from 1 July 2018

Phil Hayman was appointed to the board on 1 July 2018. He was a co-founder of Reckon in 1987. He resigned from Reckon in 2004 but has maintained his interest in Reckon through his ongoing shareholding. Phil has had varied general entrepreneurial and commercial experience through his investments in companies in start-up and first round capital raising phases. Phil is presently a director of an unlisted public company with manufacturing interests in China and sales in Australia and New Zealand. He also consults to an agricultural company with extensive holdings in southern NSW. He currently owns and manages an accommodation company.

Clive Rabie

Group Chief Executive Officer, Group Managing Director from 1 July 2018

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 and was appointed Group MD on 1 July 2018. He has extensive management and operational experience in the IT and retail sectors as both an owner and director of companies.

Samuel Allert

Group CEO from 1 July 2018

Sam Allert was appointed as a director on 1 July 2018. Sam was one of the first employees in the Australian Reckon APS business in 1999. He has held numerous roles in that business from National Sales Manager, Managing Director AU/NZ, eventually becoming CEO of Reckon APS in 2013. Taking on more responsibility Sam got involved with the Business Division in a newly formed position of MD AU/NZ for the Reckon Group in 2015. In July 2018 Sam stepped into the Group Chief Executive Officer position and was appointed to the board on 1 July 2018.

Myron Zlotnick LL.M., 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's appointment as General Counsel ended on 2 July 2018, but continues as Company Secretary in a contract capacity.

Directors' Report (continued)

Review of Operations and Statement of Principal Activities

Summary

For the year ended 31 December 2017 the structure and composition of the businesses run by the Company were presented as if the Accountant Practice Management Group was to be sold to MYOB Limited and would not be part of the Company at some point during 2018.

As it transpired the sale was not completed. MYOB Limited announced its withdrawal from the sale on 31 May 2018. A summary of this process is set out below.

Accordingly, for the year ending 31 December 2018, the Directors' Report is presented along the lines of how the businesses run by the Company were structured and composed as at 31 December 2017 and as continued to the end of 2018, with the Accountant Practice Management Group as part of the Company.

For the year reported the Company is structured as follows:

2018

Business Group

Legal Practice Management Group

Accountant Practice Management Group

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

The Legal Practice Management Group supplies software solutions to legal firms and corporations for revenue management, expense management, print solutions, business process automation, business intelligence, document service automation, scan and document management under the Reckon nQueue and Reckon Billback brands.

The Accountant Practice Management Group undertakes the development, sales and support of practice management, compliance and efficiency tools for professional accounting firms under the Reckon APS and Reckon Elite brands. This business also supplies corporate services such as company registration, company secretarial tools and supply of relevant content under the Reckon Docs brand.

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

Business Group

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

A key focus in the Business Group is to grow the Reckon One cloud-based business accounting software. Reckon One cloud-based accounting software is based on a “designed by you” concept that allows users to tailor the solution to their needs by choosing modules their business will use. The current modules available are: Core (which includes payments and receipts, budgets and reporting); Invoices; Payroll, BankData (automatic bank statement import into accounts and reconciliation); Projects (manage revenue, costs and forecasts by project); Time & Billing (timesheets and expenses); and an open API for third party applications.

Users can select which modules they need and only pay for those they use, making Reckon One a very cost-effective solution for small businesses.

The Company has released a cloud-based POS product, Single Touch Payroll (part of an overall strategy to integrate small business accounting with regulatory reporting under the Reckon GovConnect brand) and an Inventory module via an API relationship with a third party.

The Company has also recently completed further development of the Reckon One product which “white labels” this product on behalf of clients. The first client signed up is the Institute of Public Accountants where Reckon will provide a white label product to IPA members under the IPA Books+ brand. IPA members have over 1 million small business clients across Australia and United Kingdom.

One of the fastest growing products in the Reckon Accounts suite remains Reckon Accounts Hosted, a feature rich secure online accounting software solution.

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

The Company is also engaged in entering partnerships with suppliers who can meet the strategic demands of small business for diverse needs such as small business loans and business or HR documentation.

Since 2017 the Company has also partnered in the “Fintech” space to bring small business loans to its customer base under the Reckon Loans brand.

In July 2018 the Company acquired the technology and customers of Better Clinics, a business that provides cloud-based practice management software for health, medical and fitness professionals. This business presently focusses on the allied health services market that includes physiotherapists, chiropractors and personal trainers. This comprises a market of an estimated 120,000 customers.

The Company is on the verge of completing a BankData module targeted at accountants and bookkeepers. The module will enable accountants and bookkeepers to efficiently download and process bank transactions and provide reporting and analysis to their clients.

Legal Practice Management Group

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

A key focus of this Group is to reposition itself from a cost recovery provider to become a workflow expert in the areas of Print Management, Uniform Advanced Scanning and Cost Recovery. It is also pursuing a wider channel sales network including manufactures of multi-purpose office machines.

The Scan solution also presents an opportunity to expand to non-legal client markets.

Directors' Report (continued)

Accountant Practice Management Group

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

The Reckon APS suite comprises several integrated modules for business-critical functions in professional firms: Practice Management (PM); Business Intelligence and Reporting (PIQ); Taxation (Tax); Client Accounting (XPA); Client Relationship Management (CRM); Resource Planning (RP); Corporate Secretarial (CR); Workpaper Management (WM); SyncDirect and others.

All of the above modules are available in a hosted version called APS Private Cloud.

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

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

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

The Reckon Docs 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.

The Company is in the process of completing development of a new Corporate Register module which will be fully integrated into Reckon APS and thereby will provide efficiency gains for clients.

The module is also being developed so that it is able to be sold as a standalone product, both for the existing professional accountants market and non-accountants markets.

Results of Operations

Results Headlines (IFRS, save where indicated otherwise)

	2018 Result	2017 Result	% Change	Amount Change
Revenue from continuing operations	\$75.4 million	\$80.3 million	-6%	-\$4.9 million
Revenue from discontinued operations	-	\$10.0 million		
Revenue	\$75.4 million	\$90.3 million	-16%	-\$14.9 million
EBITDA from continuing operations	\$30.6 million	\$31.3 million	-2%	-\$0.7 million
Discontinued business and transaction costs*	-\$1.4 million	\$0.3 million		
EBITDA	\$29.2 million	\$31.6 million	-8%	-\$2.4 million
NPAT attributable to owners of the parent from continuing operations	\$7.7 million	\$7.5 million	3%	\$0.2 million
Discontinued business and transaction costs*		\$0.1 million		
NPAT attributable to owners of the parent from continuing operations	\$7.7 million	\$7.6 million	1%	\$0.1 million

*Non-IFRS information

In the Business Group, overall revenue is adversely impacted by a reduction in revenue from desktop products as clients migrate generally to cloud-based products.

Whilst this inhibits overall revenue growth in the short-term, it also does provide a valuable opportunity to convert existing non-paying customers to cloud subscription products over the coming years.

Importantly, in the Business Group, revenue from cloud-based products has continued to grow strongly.

This revenue is up by 8% on the prior year and now represents 45% of the Business Group's available revenue.

In the Accountant Practice Management Group, subscription revenue growth was hampered by customers who may have held back on acquiring new products until the possible sale of Reckon APS was completed.

Upfront and service revenue in the year was also negatively impacted.

Revenue from the sale of content was again weaker during the year as the market moves to subscription pricing.

Costs were carefully managed during the possible sale of Accountant Practice Management Group, and hence this division achieved marginal EBITDA growth despite a revenue reduction.

In the Legal Practice Management Group, the decline in revenue is due to weaker new business revenue as well as the implementation of the transition from an upfront sales model to a more sustainable subscription model.

Profitability in the Legal Practice Management Group has also been impacted by \$0.8 million in the half year caused by a significant bad debt arising from a new customer signed in the prior year that reneged on its contractual undertaking.

Directors' Report (continued)

Significant Changes in State of Affairs

There were no significant change in the Company's state of affairs during the year.

At the end of 2017 Reckon Limited announced the sale of its Accountant Practice Management Group (Reckon APS) to MYOB Limited. The sale was subject to regulatory approval from the Australian Consumer and Competition Commission and the New Zealand Commerce Commission. At the time of the signing of the sale agreement we had every confidence that the sale would be approved. However, after a period of almost six months of detailed communication and intense deliberation with the regulators it became apparent that formal approval was unlikely to be forthcoming. As a consequence MYOB announced on 31 May 2018 that it was going to withdraw from the sale agreement. The sale was thus not completed.

We acknowledge that the delay in completing the sale may have generated a sense of uncertainty for shareholders. But this perception is accurate only to the extent that some customers may have held back on acquiring new products until the sale of Reckon APS was completed. During the regulatory process we received feedback that a number of customers were opposed to the sale because they preferred the technology and service that Reckon APS offered and because some key functionality was not offered by MYOB or other competitors. There was a concern that if the sale completed service levels would decline and functionality would be lost. This applied especially to larger professional accounting firms. So these customers were waiting to see whether the sale would complete or not before making any decision about acquiring new products. Importantly, what emerged was a vote of confidence in Reckon APS' service offering and product suite. During the distractions of the regulatory process Reckon remained committed to running the Reckon APS business in the normal course.

It is true that the directors still hold the view that the value of the sum of the parts of the Reckon business does not reflect the value of the individual parts. As announced on 7 August 2018 Investec was engaged to assist in a process to explore the best way of unlocking value from the various parts of the business. This is an ongoing process and at the time of writing this Annual Report, there is nothing to be announced to shareholders.

Future Developments, Business Strategies and Prospects for Future Financial Years

To some extent the pursuit to unlock value from the business through the sale of the Accountant Practice Management Group was a distraction for the first six months of the year under report.

However, after the sale to MYOB did not complete, the Company pivoted to continue with business as usual as at no time was focus lost on the overall future strategy of the Company.

The overall strategy has remained fundamentally the same, from the Company's early days, through several iterations. The strategy has evolved and adapted to meet with competitive pressure and changes in technology, most notably the advent of software as a service and cloud-based services.

The strategy is to bring together a suite of solutions that deliver business efficiency tools for small to medium sized businesses – an ecosystem for business, together with practice efficiency tools for professional firms – a platform for accountants.

To date we have executed well on this strategy but the Company struggled to persuade the investor market of the collective value of the ecosystem and platform it has created.

So, key to understanding the Company's strategy over the next 3 to 5 years is to appreciate the following:

- the board views the Company as entering a growth (or even start up in some parts of the business) phase;
- there are untapped opportunities in targeted and niche products that complement and diversify the traditional efficiency software offered to businesses and professional firms;

- investment will also be focussed on maintaining, refining and improving existing assets and acquiring or developing solutions to complement or differentiate our offerings;
- the businesses have a stable and loyal customer base; with a high level of recurring revenue.

In the second half of 2018, as mentioned above, there are concrete examples of executing on this strategy:

- Under the Reckon GovConnect brand the Company has developed a Single Touch Payroll solution. This is offered as a standalone option or integrated with Cloud, Hosted or Desktop solutions. From 1 July 2019 the ATO has mandated that small businesses with less than 19 employees will be required to be single touch payroll compliant. This is a market of roughly 750,000 businesses.
- The Company was the first to launch a white label version of cloud accounting software. In partnership with the Institute of Public Accountants (IPA) we can deliver an IPA member specific version of Reckon One. The potential reach here is to a membership base of 35,000 serving over one million small businesses.
- The Company launched an online point of sale product.
- The Company has improved the technology for Reckon Bank Data and added on an “advisor” function to allow accountants to assist small businesses in managing their accounting affairs.
- The Company acquired the technology and customers of Better Clinics, a business that provides cloud based practice management software for health, medical and fitness professionals. This business presently focusses on the allied health services market that includes physiotherapists, chiropractors and personal trainers. This comprises a market of an estimated 120,000 customers.
- The Company released a major release of the Practice Management module in 2018, providing another big step in the cloudification journey, with integrated online/mobile timesheet functionality and a “client hub” cloud view of the client data added to the product in this release.
- BankData is being integrated into the Reckon APS suite.
- The Company has continued to refine its print and scan solutions for the legal market with the next iteration now available for rollout.

The Company is also exploring opportunities in complementary products and services. Further white label opportunities are being pursued with large corporates, other associations and accounting practices.

That is not to say that appropriate value transactions will be ignored.

Remuneration Report (Audited)

1 Persons Covered by this Report

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

Key management personnel (KMP) are the non-executive directors, the executive directors and employees who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity. On that basis, the following roles/individuals are addressed in this report:

Non-executive Directors

- Mr Ian Ferrier, independent non-executive director since 17 August 2004
 - Chairman of the Board since 1 July 2015
 - Resigned effective 1 July 2018
- Mr Greg Wilkinson, director since 19 July 1999
 - Deputy Chairman since 1 February 2006
 - Chairman of the Board since 1 July 2018
 - Risk and Audit Committee member since 1 February 2010
 - Remuneration Committee member since 1 December 2011
- Mr Philip Hayman, independent non-executive director since 1 July 2018
 - Remuneration Committee Chairman since 1 July 2018
 - Risk and Audit Committee Chairman since 1 July 2018

Senior Executives Classified as KMP

- Mr Clive Rabie
 - Chief Operating Officer from 1 January 2001
 - Executive Director since 1 January 2005
 - Group Chief Executive Officer from 22 February 2006
 - Group Managing Director since 1 July 2018
- Mr Sam Allert
 - Executive Director since 1 July 2018
 - Group Chief Executive Officer since 1 July 2018
- Mr Chris Hagglund
 - Group Chief Financial Officer (CFO) since 1 October 2004
- Mr Myron Zlotnick
 - General Counsel from 1 October 2002 until 2 July 2018
 - Company Secretary since 1 October 2002

2 Context of KMP Remuneration

The Remuneration Committee and the board remain mindful of the historical context of the governance of remuneration matters for the Company. At the 2018 Annual General Meeting there was an overwhelming majority vote of approval for remuneration practices. The board continues to endeavour to balance the idiosyncrasies of the Company with generally accepted governance practices for remuneration.

At the time of the writing of this report for the prior financial year ended 31 December 2017, the Company had agreed to sell the Accountant Practice Management business to MYOB Group Limited. The sale was conditional on the approval of the Australian Consumer and Competition Commission and the New Zealand Commerce Commission. At the time of signing of the sale the Company had every confidence that the sale would complete. It was expected that the completion would take place some time before the end of the first half of the year. The completion of the sale would mean that the structure of the business and management would have changed. Because of these anticipated changes, the board on the recommendation of the Remuneration Committee elected to defer any implementation of a long term incentive plan for 2018 onwards pending the outcome of the sale. As it transpired the sale did not complete, as announced on 31 May 2018. Thus any anticipated new foundations for remuneration, especially for long term incentives were not implemented.

Long term incentives for the performance period 2019 to 2021 accordingly took account of the fact that no offers were made in 2018.

3 Overview of Reckon's Remuneration Governance Framework & Strategy

The Company is influenced in the governance of KMP remuneration by a wide range of sources, including:

- Remuneration Committee Members,
- External remuneration consultants (ERCs),
- Stakeholder groups including shareholders and proxy advisors, and
- Company management to understand roles and issues facing the Company.

The following outlines Reckon's remuneration governance framework.

3.1 Remuneration Committee

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

The Remuneration Committee was comprised of two non-executive directors:

- Mr Ian Ferrier (independent, Chairman of the Board) until 1 July 2018
- Mr Philip Hayman (independent, non-executive director) from 1 July 2018
- Mr Greg Wilkinson (independent, Deputy Chairman of the Board), chairman of the Board from 1 July 2018.

The Remuneration Committee operated substantially in accordance with the aims and aspirations of Principle 8 of the ASX Corporate Governance Principles and Recommendations ("ASX Principles and Recommendations"), including that the majority of the committee should be composed of independent non-executive directors.

The role and responsibilities of the committee are outlined in the Reckon Remuneration Committee Charter (the Charter), available on the company website. The role of the Remuneration Committee is to ensure that appropriate remuneration policies are in place which are designed to meet the needs of the Company and to enhance corporate

Remuneration Report (Audited) (continued)

and individual performance. That is, the development, maintenance and application of the Remuneration Governance Framework for the purposes of making recommendations to the Board regarding KMP remuneration matters, as well as advising the Board on procedures that must be undertaken in relation to the governance of remuneration, and communicating such matters to the market (such as the calculation of grants of incentives, review of performance conditions and receipt of independent advice, etc.).

Under the Charter, the Remuneration Committee is to be composed of at least three non-executive members with the majority being independent directors. It should be noted that given the size of the Company and the board, the Remuneration Committee presently is comprised of only two members. Consideration will be given to appointing a third independent member.

The charter of the Remuneration Committee is available on the company's website at <https://www.reckon.com/au/investors/governance/>.

3.2 Trading Policy

The Trading Policy of the Company is available on the company website. It contains the standard references to insider trading restrictions that are a legal requirement under the Corporations Act, as well as conditions associated with good corporate governance. To this end the policy specifies trading windows during which officers of the Company may trade in the securities of the Company, and that officers must seek permission from the Chairman of the Company before so doing. It also requires officers to notify the Company Secretary of the transaction once completed, and prohibits trading at all other times unless an exception provided by the Chairman following an assessment of the circumstances (e.g. financial hardship). Trading windows arise during the six week period commencing 24 hours after each of the following events:

- The announcement to the ASX of the company's half-year results
- The announcement to the ASX of the annual results and
- After the general meeting.

Officers generally includes directors and senior executives of the Company.

The policy also restricts employees from short-term trading or from hedging etc. and gives the Board the power to suspend all dealing in Company securities by employees at any time, should it be appropriate. Prior to presenting full year results, equity plan participants are required to confirm that they have not entered into any transactions which would contravene the Company's trading policy.

3.3 Executive Remuneration Policy

The following outlines the policy that applies to executive KMP (and does not apply to non-executive directors):

- Remuneration should be composed of:
 - Base Package (inclusive of superannuation, allowances, benefits and any applicable fringe benefits tax (FBT) as well as any salary sacrifice arrangements)
 - Short term incentive (STI) which provides a reward for performance against annual objectives and
 - Long term incentive (LTI) which provides an equity-based reward for performance against indicators of shareholder benefit or value creation, over a three year period and
 - In total the sum of the elements will constitute a total remuneration package (TRP)
- Both internal relativities and external market factors should be considered
- TRPs ought to be structured with reference to market practices and the circumstances of the Company at the time

- That the Base Package policy mid-points should be set with reference to P50 (the median or the middle) of the relevant market practice
- That TRPs at Target (being the Base Package plus incentive awards intended to be paid for targeted levels of performance) should be set between P50 and P75 (the upper quartile, the point at which 75% of the sample lies below) of the relevant market practice so as to create a strong incentive to achieve targeted objectives in both the short and long term
- Remuneration will be managed within a range so as to allow for the recognition of individual differences such as the calibre of the incumbent and the competency with which they fulfil a role (a range of +/- 20% is used, in line with common market practices)
- Exceptions will be managed separately such as when particular talent needs to be retained or there are individuals with unique expertise that need to be acquired ("Red circle" exceptions) and
- Termination benefits will generally be limited to the default amount that may be provided for without shareholder approval, as allowed for under the Corporations Act.

Taking account of the above, generally, remuneration structures are driven by the budget setting process and cost to company as well as the particular circumstances of the relevant KMP, their skill set, experience, and value to the Company.

Market capitalisation is one of the factors that influences external assessments of the appropriateness of remuneration; it is understood that external groups tend to see it as the primary indication of the size and status of the Company, and the field in which the Company is competing for talent. While Reckon does not subscribe to this view exclusively and instead considers a broad range of factors that drive competition for talent in different parts of the Company, it is acknowledged that it must be a consideration when communicating with stakeholders.

The Company will also take into account the impact of corporate transactions on incentives designed to retain talent for the longer term.

3.4 Non-executive Director Remuneration Policy

The Non-executive Director Remuneration Policy applies to non-executive directors (NEDs) of the Company in their capacity as directors and as members of committees, and may be summarised as follows:

- Remuneration may be composed of:
 - Board fees inclusive of superannuation
 - Other benefits (if appropriate) and
 - Equity (if appropriate at the time, currently not applicable)
- Committee fees do not form part of the NED remuneration policy because at present the workload of the Board is shared equitably amongst its members
- Remuneration will be managed within the aggregate fee limit (AFL) or fee pool approved by shareholders of the Company – currently \$400,000 in accordance with shareholder approval in 2005
- Termination benefits will not be paid to NEDs by the Company
- A policy level of Board Fees (being the fees paid for membership of the Board, inclusive of superannuation) will be set with reference to the P50 (median or middle) of the market of comparable ASX listed companies.

Remuneration Report (Audited) (continued)

During the FY18 reporting period the following fees were applicable:

Function	Role	Fee Including Super
Main Board	Chair	\$128,526
	Member*	\$103,888
Audit & Risk Committee	Chair	n/a
	Member	n/a
Nomination & Remuneration Committee	Chair	n/a
	Member	n/a
Other Committee	Chair	n/a
	Member	n/a

*Average

As at the commencement of FY19 the following fees apply:

Function	Role	Fee Including Super
Main Board	Chair	\$131,400
	Member	\$87,600
Audit & Risk Committee	Chair	n/a
	Member	n/a
Nomination & Remuneration Committee	Chair	n/a
	Member	n/a
Other Committee	Chair	n/a
	Member	n/a

3.5 Short Term Incentive (STI) Policy

Currently the short term incentive policy of the Company is that an annual component of executive remuneration should be at-risk tested over a single financial year, and allow the Company to modulate the cost of employment to align with individual and Company performance while motivating value creation for shareholders. In addition:

- STI should be settled in part or whole in the form of cash, and if appropriate at the time, a portion may be specified as being settled in the form of equity
- The target cash component of the STI at target should have a weighting in the remuneration mix that is no greater than the sum of LTI at target and any equity component of the STI at target, to ensure that executives are focused on long term value creation via equity ownership
- If part of the STI is to be settled in the form of equity:
 - STI deferral is to apply to contribute to the long term alignment of executives and shareholders, and to facilitate retention of senior executive talent, and
 - For FY18 approximately one third to one half of any STI award will be settled provided the incumbent has remained employed for 12 months following the end of the STI Measurement Period in order to receive the full award.

See below regarding the treatment of those executives for whom it may not be reasonable to provide share-based equity due to the tax consequences that apply when the participant owns a material share of the Company's issued capital. At present there are no executives in any offers impacted by this.

3.6 Long Term Incentive (LTI) Policy

No LTI offers were made for the performance period 2018 to 2020. The detail set out below applies to LTI offers made for prior periods.

Currently the long term incentive policy of the Company is that an annual component of remuneration of executives should be at-risk and based on equity in the Company to ensure that executives hold a stake in the Company, to align their interests with those of shareholders, and that executives share risk with shareholders.

Further:

- The LTI should be based on Performance Rights that vest based on assessment of performance against objectives
- The Measurement Period should be three years
- There should be two measures of long term performance, one which best reflects internal measures of performance and one which best reflects external measures of performance
- The measure that has strongest alignment with shareholders is total shareholder return (TSR), however it is recognised that absolute TSR is influenced by overall economic movements. Therefore the TSR component of LTI is based on relative TSR which removes broad market movements from assessments of the Company's TSR performance, and avoids windfall gains from broad market movements. Vesting only when the performance of the Company meets or exceeds the performance of the broader market
- Senior Executives are faced with significant and long term business development and project based challenges. Therefore the LTI should also be linked to the achievement of earnings growth objectives that will lead to value creation for shareholders, and the earnings per share (EPS) growth measure is considered the best measure of long term performance and value creation from an internal perspective, by the Board and by many stakeholders
- Reckon is fortunate to have KMP, including the Managing Director, who are already strongly aligned with shareholders due to personal acquisition and ownership of shares. When an executive owns a substantial portion of the Company's issued capital, they are ineligible for employee share scheme (ESS) tax treatment, and the consequences of participating in the plan are punitive. In order to address this there is a separate plan which is effectively the same as the Rights LTI plan but allows for the LTI instrument to be replaced with Share Appreciation Rights (SARs) which are settled in cash, when this circumstance arises. Such payments are treated the same way as a cash STI in terms of tax. This treatment also applies to any deferred component of STI that would otherwise be awarded in the form of share-based rights. Whilst it is recognised that the settling of incentive rights in the form of cash is unusual, it is trusted that shareholders understand the need to do so in these limited cases. At present there are no executives participating in any SAR based plan
- The SAR plan operates in a similar way to an option, in that the participant only receives a benefit to the extent of growth in value over the market value of a share at the time of calculation/granting. This requires that they be valued differently, as their value is not the whole value of a Company share.

Remuneration Report (Audited) (continued)

3.7 Variable Executive Remuneration – The Short Term Incentive (STI)

Short Term Incentive (STI)	
Aspect	Plan, Offers and Comments
Purpose	The STI Plan's purpose is to give effect to an element of Senior Executive Remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for Senior Executives to deliver and outperform annual business plans that will lead to sustainable superior returns for shareholders. Target-based STI's are also intended to modulate the cost to the Company of employing Senior Executives, such that risk is shared with the executives themselves and the cost to the Company is reduced in periods of poor performance.
Measurement Period	The Company's financial year i.e. from 1 January to the following 31 December.
Award Opportunities	FY18 Offers The previous CEO was offered a target-based STI equivalent to roughly 37% of the Base Package for target performance, with a stretch opportunity of up to 110% of the target. Upon termination of the Group CEO's appointment and his appointment as Group Managing Director, the board approved a pro-rata vesting of 2018 STI payments. The same applied for the termination of the General Counsel's appointment. The new CEO's STI comprises roughly 19% of his Base Package, with a stretch opportunity of up to 110% of target. Other Senior Executives who are KMP were offered a target-based STI equivalent to between 24% and 30% of the Base Package for target performance with a stretch opportunity of up to 110% of the target. Comments The incentive levels offered in FY18 were consistent with the proportional opportunities (proportional to Base Package) offered in previous years. FY19 Offer The FY19 offers do not materially depart from the FY18 offers.

Key Performance Indicators (KPIs), Weighting and Performance Goals	FY18 Offers KPIs may vary to some extent between participants and reflect the nature of their roles, while creating shared objectives where appropriate. KPIs used for FY18 included: • Revenue • EBITDA • EPS Weightings are applied to the KPIs selected for each participant to reflect the relative importance of each KPI. Information on this aspect and specific KPIs is given in detail elsewhere in this report. Comments The Board selected KPIs that were identified as having the strongest links with long term value creation for shareholders at the Company level, and those objectives over which individuals had most control that would also be expected to contribute to long term value creation and sustainability for shareholders within a 12 month period, as well as KPIs to recognise individual role related objectives and business plans for FY18. FY19 Offers The FY19 offers do not materially depart from the FY18 offers.
Award Determination and Payment	Calculations are performed following the end of the Measurement Period and the audit of Company accounts. Payments are in cash with PAYG tax deducted, paid following the completion of the Measurement Period and completed audited full year accounts. A portion of the STI (between 20% to 50%) is only paid a year later provided the KMP is still employed. Performance was determined following audit sign-off of the FY18 accounts. In the case of the terminated Group CEO and General Counsel, pro-rata payments were approved based on performance to 30 June 2018.
Change of Control	The Board has discretion to terminate the STI for the Measurement Period and make pro-rata awards having regard to performance or make pro-rata awards based on performance and allow the plan to continue for the Measurement Period or make no interim awards and allow the Plan to continue for the Measurement Period.
Plan Gate and Board Discretion	If the Company's overall performance during the Measurement Period is substantially lower than expectations and resulted in significant loss of value for shareholders the Board may abandon the STI Plan for the Measurement Period or adjust STI payouts downward. The Board also has discretion to increase payouts, however, it has been determined that such discretion will only be applied in future when it would be substantially inappropriate not to do so, due to an anomaly during the Measurement Period, or because of exceptional circumstances, which would be explained in detail as part of the Remuneration Report.
Fraud, Gross Misconduct etc	If the Board forms the view that a Participant has committed fraud, defalcation or gross misconduct in relation to the Company then all entitlements in relation to the Measurement Period will be forfeited by that participant.
Clawback and Malus	A clawback policy is in place for cases of material misstatement or misconduct. The Remuneration Committee has the power to withdraw offers that have not vested or to clawback short-term incentives paid in the case of serious misconduct or material misstatement in the financial statements respectively.

Remuneration Report (Audited) (continued)

3.8 Variable Executive Remuneration – Long Term Incentive (LTI) – Performance Rights Plan

No LTI offers were made for the performance period 2018 to 2020. The detail set out below applies to LTI offers made for prior periods.

Long Term Incentive (LTI)	
Aspect	Plan, Offers and Comments
Purpose	The LTI Plan's purpose is to give effect to an element of Senior Executive remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for Senior Executives to deliver Company performance that will lead to sustainable superior returns for shareholders. Other purposes of the LTI Plan is to act as a retention mechanism so as to maintain a stable team of performance focused Senior Executives, to create alignment with the interests and experiences of shareholders and to modulate the cost to the Company of employing executives such that in periods of poor performance the cost is lesser (applies to non-market measures under AASB2). Currently the Company may operate two performance rights plans, one which is settled in the form of Company shares (equity-based Rights), and one which is settled in the form of cash, but based on growth/change in the Company's share price (SARs), similar to an option (necessary to avoid potentially adverse tax treatment of certain executive KMP due to personal shareholdings). There is no SAR based plan currently in place.
Measurement Period	Normally three years. FY18 Offers No LTI offers were made for FY18, for the performance period 2018 to 2020. Comments Three year Measurement Periods combined with annual grants will produce overlapping cycles that will promote a focus on producing long term sustainable performance/value improvement and mitigates the risk of manipulation and short-termism. FY19 Offers The FY19 offers do not materially depart from the FY17 offers, save that the quantum of shares to be offered takes account of the fact that no shares were offered in FY18.
Form of Equity	LTI is in the form of Performance Rights, which are either rights to: • ordinary Company shares, under the regular LTI plan, • or to a cash value equivalent to growth in the market value of a share in respect of each vested Performance Right, since the date of grant/calculation, under the share appreciation rights plan (SARs), both of which vest subject to the satisfaction of conditions related to long term performance and/or service on an identical basis i.e. the form of equity has no bearing on the setting of vesting conditions etc. There is no entitlement to dividends during the Measurement Period.

LTI Value The Board retains discretion to determine the value of LTI to be offered each year, subject to shareholder approval in relation to Directors, when the Rights are to be settled in the form of a new issue of Company shares. The Board may also seek shareholder approval for grants to Directors in other circumstances, at its discretion.

FY18 Offers

No LTI offers were made for FY18, for the performance period 2018 to 2020.

Vesting Conditions The Board has discretion to set vesting conditions for each offer. Performance Rights that do not vest will lapse. The vesting conditions are TSR relative to the ASX 300, with a 50% weighting, and EPS Growth relative to target, with a 50% weighting. Adjustment of the TSR vesting scale will occur to remove any vesting at below-market (index) performance.

FY18 Offers

No LTI offers were made for FY18, for the performance period 2018 to 2020.

The vesting scales for prior offers are:

Performance Level	Annualised EPS Growth	Vesting
Below Threshold	< Budget	0%
Threshold	=Budget	75%
Between Threshold and Target	>Budget, <110% of Budget	Pro-rata
Target	110% of Budget	100%

Performance Level	Relative TSR of the Company as % of the S&P ASX 300 Accumulation Index	Vesting
Below Threshold	< Index	0%
Threshold	=Index (100%)	75%
Between Threshold and Target	>100%, <110%	Pro-rata
Target	110% of Index	100%

Remuneration Report (Audited) (continued)

FY19 Offers

The FY19 offers do not materially depart from the FY17 offers, save that the quantum of shares to be offered takes account of the fact that no shares were offered in FY18.

Comments

The Board of Reckon recognises that it is important that shareholders understand why the LTI vesting conditions selected are appropriate to the circumstances of the Company, and therefore seeks to be transparent in this regard.

A form of total shareholder returns (TSR) was selected as it recognises the total returns (share price movement and dividends assuming they are reinvested into company shares) that accrue to shareholders over the Measurement Period. This measure creates the most direct alignment between the experience of shareholders and the scaling of rewards realised by Senior Executives.

Relative TSR has been selected to ensure that participants do not receive windfall gains from broad market movements unrelated to the performance of the Senior Executives (which is the key feature that has led many companies to use relative TSR). Relative TSR achieves this by modulating the required TSR outcome of the Company based on indicators of overall market movements, and assessing performance in excess of broad market movements unrelated to the activities of the Company.

While ranked TSR was considered, it was not possible to identify a comparator group of companies that was statistically robust enough to be meaningful and the Board was concerned that this would undermine the link between executive performance and reward outcomes. In addition the comparator group used until very recently is no longer appropriate as several entities have failed or are no longer listed on the ASX. TSR relative to a robust indicator of market movements/performance will therefore apply to future grants of LTI.

The relative TSR vesting scale requires that the Company deliver a TSR to shareholders that is at least as good or better than the market over the Measurement Period before any vesting may occur. Full vesting becomes available when the TSR of the Company reaches 100% of the TSR of the index over the Measurement Period. The Target of 110% of the index is considered by the Board to be challenging should the Board's assumptions in making that assessment prevail. While, under such a TSR LTI approach, the market indicator is generic, the vesting scale reflects the expectations of the Board, management, shareholders and other stakeholders given the particular circumstances of the Company, relative to the broader market. This measure is, in the view of the Board and based on advice, likely to better align the outcomes of the LTI plan with Company performance and shareholder interests than selecting a tailored but largely irrelevant comparator group of companies to which a generic vesting scale is then applied, which is the approach adopted by the vast majority of companies that use ranked TSR.

Based on advice received by the Board from its independent remuneration advisor in 2016, it is understood to be good practice to have both an external (TSR) and internal measure of long-term Company performance in relation to the LTI. The internal measures that will most clearly align with shareholder value creation at this stage will be the achievement of the earnings growth targets specified by the Board in consideration of business plans and economic circumstances each year. Therefore earnings per share growth (EPSG) is used as the second condition.

Retesting

The Plan Rules do not contemplate retesting and therefore retesting is not a feature of the Company's current LTI offers.

Plan Gate and Board Discretion	A gate applies to the TSR component of the LTI such that no vesting will occur if the Company's TSR is not positive. If the movement of the index is low over the Measurement Period, at less than 5%, then the Board will exercise its discretion to limit vesting to the threshold level, or an even lesser level. The Board has the power to exercise discretion to decline to allow an award to vest, for example in the circumstances of a "bad leaver".
Amount Payable for Performance Rights	No amount is payable for Performance Rights. The value of Rights is included in assessments of remuneration and policy.
Exercise of Vested Performance Rights	Under the plan rules, vested Performance Rights will be available to be exercised, subject to the payment of any Exercise Price, until the last exercise date. Exercised Rights will be satisfied in the form of ordinary Company shares, except where the participant necessarily participates in the cash Rights (SAR) plan to address the tax issues faced by them as significant shareholders in the Company (see earlier discussion of this aspect). No amount is payable by participants to exercise vested Performance Rights.
Dealing Restrictions on Shares	Shares that result from the exercise and vesting of Performance Rights will be subject to dealing restrictions as per the Company's trading policy applicable to officers of the Company.
Cessation of Employment During a Measurement Period	In the event of cessation of employment due to dismissal for cause all unvested Performance Rights are forfeited. In the event of cessation of employment due to resignation or dismissal all unvested Performance Rights are forfeited.
Change of Control of the Company	The Board retains discretion under the rules of the plans to over-rule the automatic vesting of incentives in the event of "capital events" such as takeovers or restructures.
Fraud, Gross Misconduct etc	If the Board forms the view that a Participant has committed fraud, defalcation or gross misconduct in relation to the Company then all entitlements in relation to the Measurement Period will be forfeited by that participant.
Clawback and Malus	A clawback policy is in place for cases of material misstatement or misconduct. The Remuneration Committee has the power to withdraw offers that have not vested or to clawback short-term incentives paid in the case of serious misconduct or material misstatement in the financial statements respectively.

In previous years the Company also operated a Retention Rights scheme which allowed for vesting based on service only. On 24 May 2011 the Remuneration Committee approved and recommended to the Board an extension to the long term incentive plan by adding a long term retention incentive. The genesis of the idea to extend the plan and offer additional performance shares was to provide a reward and an incentive for senior level employees who have a long employment history and good performance record (i.e. beyond the KMP).

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 KMP and other senior employees. 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 employees who commit to the company over a very long period and thereby providing stability as the business grows and matures, the board believes long term shareholder benefits will result for shareholders.

Remuneration Report (Audited) (continued)

The long term retention incentives are offered to selected employees with the principal vesting condition that participants must remain employed for the term specified (typically 7-10 years). 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.

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

However no grants were made to KMP under that plan during FY18, and in response to feedback from some shareholders and stakeholders, the Board does not contemplate making further grants such as this to executive KMP again unless exceptional circumstances arise. This legacy arrangement is being grandfathered and is phasing out, with the final tranche vesting at the end of FY20.

3.9 Securities Holding Policy

The Board currently sees a securities holding policy as unnecessary since executives receive a significant component of remuneration in the form of equity and that a number of key executives already hold significant numbers of shares, voluntarily. Given that the outcome is effectively already being achieved, it was determined that such a policy was currently unnecessary.

3.10 Clawback Policy

Reckon has adopted a clawback policy which is activated in cases of material misstatements in the Company's financial reports, or in cases of misconduct by executives.

4 Remuneration Records for FY18 – Statutory Disclosures

4.1 Senior Executive Remuneration

The following table outlines the remuneration received by Senior Executives of the Company during FY18 prepared according to statutory disclosure requirements and applicable accounting standards:

Name	Role(s)	Year	Salary	Superannuation Contributions	Other Benefits	Base Package		STI ¹		LTI ²		Total Remuneration Package (TRP)
						Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	
Mr Clive Rabie	Group MD*	2018	\$853,190	\$25,000	\$0	\$878,190	71%	\$717,764 ⁴	58%	-\$356,000 ⁴	-29%	\$1,239,954
	Group CEO	2017	\$848,190	\$30,000	\$0	\$878,190	65%	\$319,256	24%	\$148,375 ³	110%	\$1,345,821
Mr Sam Allert	Group CEO**	2018	\$503,885	\$25,000	\$3,033	\$531,918	74%	\$100,090	14%	\$91,294	13%	\$723,302
	MD ANZ	2017	\$428,020	\$27,500	\$4,288	\$459,808	69%	\$99,571	15%	\$105,187	16%	\$664,566
Mr Chris Hagglund	Group CFO	2018	\$481,143	\$24,200	\$0	\$505,343	67%	\$151,853	20%	\$102,402	13%	\$759,598
	Group CFO	2017	\$476,143	\$29,200	\$0	\$505,343	64%	\$146,320	19%	\$133,552	17%	\$785,215
Mr Myron Zlotnick	General Counsel/ CoSec***	2018	\$189,882	\$12,500	\$125,622	\$328,004	83%	\$184,974 ⁴	47%	-\$118,667 ⁴	-30%	\$394,311
	General Counsel/ CoSec***	2017	\$371,932	\$29,933	\$0	\$401,865	64%	\$96,366	15%	\$125,209	20%	\$623,440
Mr Daniel Rabie	N/A	2018	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	COO	2017	\$160,510	\$15,146	\$0	\$175,656	59%	\$29,919	10%	\$93,948	31%	\$299,523
TOTALS		2018	\$2,028,100	\$86,700	\$128,655	\$2,243,455		\$1,154,681		-\$280,971		\$3,117,165
		2017	\$2,284,795	\$131,779	\$4,288	\$2,420,862		\$691,432		\$606,271		\$3,718,565

* Group CEO appointment terminated 30 June 2018, appointed Group MD 1 July 2018.

** MD ANZ appointment terminated 30 June 2018, appointed Group CEO 1 July 2018.

*** General Counsel appointment ended 2 July 2018, company secretarial services only contracted from 3 July 2018. Other benefits for Mr Zlotnick are redundancy payments.

¹ Note that the STI value reported in this table is the STI that was paid during the reporting period, being the award earned during the previous period, as well as pro-rata payments for Mr Rabie and Mr Zlotnick in respect of the 2018 year. Incentive outcomes for the current and previous period are outlined elsewhere in this report.

² Note that the LTI value reported in this table is the amortised accounting charge of all grants that have not lapsed or vested as at the start of the reporting period.

³ Settled by cash.

⁴ Upon termination of the Group CEO's appointment and his appointment as Group Managing Director, the board approved a pro-rata vesting of 2018 STI payments. The same applied for the termination of the General Counsel's appointment. The negative charge for the previous Group CEO and General Counsel is due to changes in employment circumstances thereby resulting in the lapsing of the LTI offers.

Both target and awarded values of STI and LTI remuneration are outlined in the relevant sections of the Remuneration Report to assist shareholders to obtain a more complete understanding of remuneration as it relates to senior executives.

Remuneration Report (Audited) (continued)

4.2 Non-executive Director Remuneration

Non-executive director fees are managed within the current annual fees limit (AFL or fee pool) of \$400,000 which was approved by shareholders at the 2008 AGM.

Remuneration received by non-executive directors in FY17 and FY18 is disclosed below:

Name	Role(s)	Year	Board Fees	Committee Fees	Superannuation	Other Benefits	Equity Grant	Termination Benefits	Total
Mr Ian Ferrier*	Independent, non-executive Chairman	2018	\$57,375	\$0	\$5,451	\$0	\$0	\$0	\$62,826
	Independent, non-executive, Chairman	2017	\$115,659	\$0	\$9,993	\$0	\$0	\$0	\$125,652
Mr Greg Wilkinson**	Independent, non-executive Chairman	2018	\$114,875	\$0	\$10,913	\$0	\$0	\$0	\$125,788
	Independent, non-executive Deputy Chairman	2017	\$109,750	\$0	\$10,426	\$0	\$0	\$0	\$120,176
Mr Philip Hayman***	Independent, non-executive director	2018	\$40,000	\$0	\$3,800	\$0	\$0	\$0	\$43,800
	N/A	2017	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr Chris Woodforde	N/A	2018	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Independent, non-executive director	2017	\$56,438	\$0	\$5,362	\$0	\$0	\$0	\$61,800
TOTALS		2018	\$212,250	\$0	\$20,164	\$0	\$0	\$0	\$232,414
		2017	\$281,847	\$0	\$25,781	\$0	\$0	\$0	\$307,628

*Retired effective 1 July 2018.

**Appointed Chairman 1 July 2018.

*** Appointed 1 July 2018.

5 Planned Executive Remuneration for FY18

The disclosures required under the Corporations Act and prepared in accordance with applicable accounting standards reflect an attempt to match remuneration with the services provided to earn that revenue whereas the table below provides information to users to understand remuneration offered to KMP to be earned in the current and future periods. For example the LTI disclosed is not reflective of the offer made in the year being reported on due to the requirements of AASB2. Therefore the following table is provided to ensure that shareholders have an accurate understanding of the Board's intention regarding the remuneration offered to executives during FY18, for target performance. It should be noted that the table presents target incentive opportunities for achieving a challenging but achievable target level of performance. In the case of STI, the maximum incentive may be up to 10% higher (i.e. 110% of the target). No LTI was planned in 2018 due to the proposed sale of the Accountants Group to MYOB (the below represents estimated costs related to prior year offers).

Position	Incumbent	Base Package Including Super	Fixed % TRP	STI		LTI		LTI % TRP	Total Remuneration Package at Target Performance
				Target % of Base Package	Target STI Amount	Target % of Base Package	Target LTI Amount		
MD/CEO*	Mr Clive Rabie	\$878,190	61%	37%	\$324,000	28%	\$243,000	17%	1,445,190
Group CFO	Mr Chris Hagglund	\$505,343	67%	30%	\$151,500	20%	\$102,402	13%	759,245
MD ANZ/ Group CEO**	Mr Sam Allert	\$531,918	74%	19%	\$100,000	17%	\$91,294	13%	723,212
General Counsel/ CoSec***	Mr Myron Zlotnick	\$401,865	69%	24%	\$98,000	20%	\$81,000	14%	580,865

* Group CEO appointment terminated 30 June 2018, appointed Group MD 1 July 2018.

** MD ANZ appointment terminated 30 June 2018, appointed Group CEO 1 July 2018.

***General Counsel appointment ended 2 July 2018, company secretarial services only contracted from 3 July 2018.

The incentives presented in the table above is the target level of STI and LTI offered for FY18, valued at the time of the grant.

The intended value for incentives will flow to participants when performance targets are achieved.

Remuneration Report (Audited) (continued)

6 Actual/Realised Remuneration Relevant to FY18 Completion

The statutory disclosure requirements do not provide clear information on value obtained by KMP during the current year as the statutory information attempts to match the disclosed remuneration with when the services are provided. The following table outlines the non-deferred component of STI achieved during the financial year, and the LTI, if any, and/or any deferred STI that vested during the financial year in relation to the completion of the performance or vesting period at the end of the specified financial year:

Name	Role(s)	Year	Base Package Including Super		Non-deferred STI paid for the Financial Year		Deferred cash STI paid out for the FY		Grant Value of Previous Equity Grants that Vested for the FY ¹		Actual Total Remuneration Package (TRP)
			Amount	% of TRP	Amount ²	% of TRP	Amount	% of TRP	Amount	% of TRP	
Mr Clive Rabie	Group CEO / Group MD*	2018	\$878,190	69%	\$265,929	21%	\$127,160	10%	\$0	0%	\$1,271,279
	Group CEO	2017	\$878,190	73%	\$188,963	16%	\$135,712	11%	\$0	0%	\$1,202,865
Mr Chris Haggglund	Group CFO	2018	\$505,343	69%	\$79,897	11%	\$69,987	10%	\$74,428	15%	\$729,655
	Group CFO	2017	\$505,343	77%	\$81,484	12%	\$70,369	11%	\$0	0%	\$657,196
Mr Sam Allert	MD ANZ / Group CEO**	2018	\$531,918	78%	\$78,427	11%	\$19,996	3%	\$53,846	10%	\$684,187
	MD Business & Accounting ANZ	2017	\$459,808	82%	\$79,984	14%	\$20,105	4%	\$0	0%	\$559,897
Mr Myron Zlotnick	General Counsel/ CoSec***	2018	\$328,004	79%	\$44,360	11%	\$42,387	10%	\$0	0%	\$414,751
	General Counsel/ CoSec	2017	\$401,865	80%	\$52,990	11%	\$45,237	9%	\$0	0%	\$500,092
Mr Daniel Rabie*	N/A	2018	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	COO	2017	\$175,656	58%	\$12,500	4%	\$6,250	2%	\$107,430	36%	\$301,836
TOTALS		2018	\$2,243,455		\$468,613		\$259,530		\$128,274		\$3,099,872
		2017	\$2,420,862		\$415,921		\$277,673		\$107,430		\$3,221,886

* Group CEO appointment terminated 30 June 2018, appointed Group MD 1 July 2018.

** MD ANZ appointment terminated 30 June 2018, appointed Group CEO 1 July 2018.

*** General Counsel appointment ended 2 July 2018, company secretarial services only contracted from 3 July 2018.

¹ This is the value as at grant of any equity that vested in relation to the completion of the specified financial year.

² For Mr Rabie and Mr Zlotnick, this includes the settlement of LTI balances following the changes to their employment circumstances.

7 Performance Outcomes for FY18

7.1 Company Performance

The following highlights the major achievements, milestones and areas where value was created during FY18.

The Company continues to make progress in pursuing its strategic goals of re-investment for future growth and improving the quality of revenue.

The board views the implementation of these strategies as good outcomes for short term and long term planning.

Re-investment has been targeted at developing cloud technology and expanding markets. This has resulted in cloud revenue growth in the Business Group of 17%. Cloud revenue now represents 45% of Business Group revenue.

In so far as improving the quality of revenue is concerned the strength of the Company has been substantially improved by the growth in cloud products, and with the subscription component of revenue now at 79% of total revenue.

Further details of strategy execution are set out on pages 12 to 13.

The Corporations Act requires some discussion of the Company's performance dealing specifically with earnings and the consequences of the performance of the Company on shareholder wealth, for the year reported on and for the prior 4 financial years. The board is of the opinion that such a discussion in absolute terms may be misleading. The performance of the Company over these periods does not reflect the strategic and operational successes of those periods, especially taking account of the challenges faced by the Company since the relationship with Intuit was terminated, the de-merger of a division, changes to accounting treatments and the impact of the aborted sale of a major division to MYOB. As set out on pages 12 to 13, the Company has achieved a great deal in spite of the challenges it faced and is presently well poised for future growth. Hence is it overly simplistic to draw direct conclusions about "shareholder wealth" based on performance numbers in a vacuum.

The following outlines the performance of the Company over the FY18 period and the previous 4 financial years in accordance with the requirements of the Corporations Act:

Date	Revenue (\$m)	Profit After Tax attributable to owners of the parent (\$m)	Share Price	Change in Share Price	Dividends
31-Dec-18	\$75.4*	\$7.7**	\$0.67	-\$0.90	\$0.03
31-Dec-17	\$90.3*	\$7.6**	\$1.57	-\$0.02	\$0.23***
31-Dec-16	\$97.8*	\$11**	\$1.59	-\$0.81	\$0.05
31-Dec-15	91.4*	\$15.1**	\$2.40	\$0.59	\$0.07
31-Dec-14	\$100.8	\$17.6	\$1.81	-\$0.36	\$0.09

* Note change in reporting of ASIC pass through revenue and costs impact, and in 2017 the Document Management Group was only included in the results for 7 months, and for 2018 for none of the year.

** Note impact of investment in new markets, and in 2017 the Document Management Group was only included in the results for 7 months, and in 2018 for none of the year, and these results also include transaction costs incurred.

*** The dividend in specie paid to shareholders in the Document Management de-merger was \$0.23 per share.

Remuneration Report (Audited) (continued)

7.2 Links Between Performance and Reward

The remuneration of executive KMP is intended to be composed of three parts as outlined earlier, being:

- Base Package, which is not intended to vary with performance but which tends to increase as the scale of the business increases (i.e. following success)
- STI which is intended to vary with indicators of annual Company and individual performance, including a deferred component to encourage retention and
- LTI which is also intended to deliver a variable reward based on long-term measures of Company performance.

The STI paid during the FY18 period related to performance during the FY17 period and was paid in cash in February 2018. On average 99% of the target award opportunity or 90% of the maximum award opportunity (being 110% of the target) available was paid. This level of award was considered appropriate under the STI scheme that was in place during FY17, which is summarised in the table below. Therefore there were strong links between internal measures of Company performance and the payment of short term incentives.

Name	Position Held at Year End	FY17 Company Level KPI Summary				Award Outcomes
		KPI Summary	Weighting	Target	Achievement	Total Award
Mr Clive Rabie	Group CEO	Revenue	40%	\$101.3m	96%	\$188,963
		EBITDA	40%	\$35.6m	97%	
		EPS	20%	7.3cps	104%	
Mr Chris Hagglund	Group CFO	Revenue	40%	\$101.3m	96%	\$81,484
		EBITDA	40%	\$35.6m	97%	
		EPS	20%	7.3cps	104%	
Mr Sam Allert	MD ANZ	Revenue	40%	\$101.3m	96%	\$79,984
		EBITDA	40%	\$35.6m	97%	
		EPS	20%	7.3cps	104%	
Mr Myron Zlotnick	General Counsel/ CoSec	Revenue	40%	\$101.3m	96%	\$52,990
		EBITDA	40%	\$35.6m	97%	
		EPS	20%	7.3cps	104%	
Mr Daniel Rabie*	COO	Revenue	40%	\$101.3m	100%**	\$12,500
		EBITDA	40%	\$35.6m	100%**	
		EPS	20%	7.3cps"	100%**	

* Resigned effective 31 July 2017.

The STI achieved in relation to the FY18 period was paid after the end of the period (i.e. during FY19, in February 2019). On average 99% of the target award opportunity or 90% of the maximum award opportunity (being 110% of the target) available was paid. This level of award was considered appropriate under the STI scheme since the objectives were set and offers made in relation to the achievement of each KPI at the beginning of the financial year, and the majority of those objectives were met. During the FY18 period the objectives that were linked to the payment of STI included:

Name	Position Held at Year End	FY18 Company Level KPI Summary				Award Outcomes
		KPI Summary	Weighting	Original Target	Achievement	Total Award ¹
Mr Clive Rabie	Group CEO / Group MD*	Revenue	40%	\$78.1m		\$265,929
		EBITDA	40%	\$29.4m		
		EPS	20%	6.9cps		
Mr Chris Hagglund	Group CFO	Revenue	40%	\$78.1m	97%	\$79,897
		EBITDA	40%	\$29.4m	99%	
		EPS	20%	6.9cps	99%	
Mr Sam Allert	MD ANZ / Group CEO**	Revenue	40%	\$78.1m	97%	\$78,427
		EBITDA	40%	\$29.4m	99%	
		EPS	20%	6.9cps	99%	
Mr Myron Zlotnick	General Counsel/ CoSec***	Revenue	40%	\$78.1m		\$44,360
		EBITDA	40%	\$29.4m		
		EPS	20%	6.9cps		

* Group CEO appointment terminated 30 June 2018, appointed Group MD 1 July 2018.

** MD ANZ appointment terminated 30 June 2018, appointed Group CEO 1 July 2018.

***General Counsel appointment terminated 2 July 2018, company secretarial services contracted from 3 July 2018.

¹ For Mr Rabie and Mr Zlotnick, this includes the settlement of LTI balances following the changes to their employment circumstances.

As stated above the Board suspended any decision relating to the vesting of LTI offers pending completion of the sale of the Accountant Practice Management Group, which was subject to ACCC and NZCC approval.

This value is accounted for in the realised remuneration table presented earlier.

Remuneration Report (Audited) (continued)

Incumbent	Role	Target LTI Value (at grant January 2016) to Vest for FY18	Tranche	Weighting	Number of Shares Eligible to Vest for FY18****	Performance Against Target	% of Grant Vested	Number of Shares or Appreciation Rights Vested ****	LLTI shares vested ****
Mr Clive Rabie	Group CEO / Group MD*	\$339,000	TSR EPS	33/67	330,000				****
Mr Chris Hagglund	Group CFO	\$113,000	TSR EPS	33/67	100,000	Partially achieved	62%	62,167	25,000
Mr Sam Allert	MD ANZ / Group CEO**	\$113,000	TSR EPS	33/67	110,000	Partially achieved	62%	68,383	13,750
Mr Myron Zlotnick	General Counsel/ CoSec***	\$113,000	TSR EPS	33/67	100,000			-	

* Group CEO appointment terminated 30 June 2018, appointed Group MD 1 July 2018.

** MD ANZ appointment terminated 30 June 2018, appointed Group CEO 1 July 2018.

*** General Counsel appointment ended 2 July 2018, company secretarial services only contracted from 3 July 2018.

**** The shares noted above exclude any Get Busy shares released or granted.

At no time during or in relation to FY18 did the Board exercise its discretion to increase the vesting of any equity that was subject to such discretion. Any vesting of LTI scheme incentives is assessed in the context of performance.

While previous/legacy LTI arrangements are still being phased out/grandfathered, the Board has made significant efforts in recent years to improve the alignment between performance and executive reward. The Board is confident in stating that the links between Company performance and executive reward, both internally and externally measured, and over both the short and long term, are well aligned, appropriate and strongly linked, going forward. However the Board will continue to make improvements and adjustments to these links as stakeholder expectations and Company circumstances evolve.

7.3 Links Between Company Strategy and Remuneration

The Company intends to attract and retain the superior talent required to successfully implement the Company's strategies at a reasonable and appropriately variable cost by:

- positioning Base Packages (the fixed element) around P50 of relevant market data benchmarks when they are undertaken
- supplementing the Base Package with at-risk remuneration, being incentives that motivate executive focus on:
- short to mid-term objectives linked to the strategy via KPIs and annual performance assessments, and the
 - imposing of deferral periods for part of STI awards and
 - long term value creation for shareholders by linking a material component of remuneration to those factors that shareholders have expressed should be the long-term focus of executives and the Board.

Key strategies remain: investment in new technology and products; investment in new markets; sustaining existing profitable businesses for as long as possible while transitioning to the cloud. The company continues to pursue objectives in the cloud market mindful of historical restrictions imposed on it by its relationship with Intuit Inc, outside the control of management It is important to fix remuneration mindful of maintaining morale and retaining talent.

8 Employment Terms for Key Management Personnel

A summary of contract terms in relation to executive KMP is presented below:

Name	Position Held at Close of FY18	Employing Company	Duration of Contract	Period of Notice		Termination Payments
				From Company	From KMP	
Mr Clive Rabie	Group MD	Reckon Limited	Open ended	1 month	1 month	Up to 12 months*
Mr Chris Hagglund	Group CFO	Reckon Limited	Open ended	3 months	3 months	Up to 12 months*
Mr Myron Zlotnick	Company Secretary	Reckon Limited	3 years	-	3 months	NA
Mr Sam Allert	Group CEO	Reckon Limited	Open ended	1 month	1 month	Up to 12 months*

* Under the Corporations Act the Termination Benefit Limit is 12 months average Salary (last 3 years) unless shareholder approval is obtained.

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of the director. Non-executive directors are not eligible to receive termination payments under the terms of the appointments.

A summary of the appointment terms in relation to non-executive KMP is presented below:

Name	Position Held at Close of FY18	Employing Company	Duration of Contract	Period of Notice		Termination Payments
				From Company	From KMP	
Mr Ian Ferrier*	Independent, Non-executive Chairman	Reckon Limited	Open ended	None	None	None
Mr Greg Wilkinson	Independent non-executive Chairman	Reckon Limited	Open ended	None	None	None
Mr Phillip Hayman**	Independent Non-executive Director	Reckon Limited	Open ended	None	None	None

* Retired effective 1 July 2018.

** Appointed 1 July 2018.

Remuneration Report (Audited) (continued)

9 Changes in KMP Held Equity

The following table outlines the changes in the amount of equity held by executives over the financial year:

Name	Instrument	Number Held at Open 2018	Granted FY18	Forfeited	Vested	Purchased / DRP	Number Held at Close 2018
		Number	Number	Number	Number	Number	Number
Mr Clive Rabie	Shares	11,230,189	0	0	0	0	10,597,141
	Rights/ Options	1,407,036	0	1,407,036	0	0	0
Mr Chris Hagglund	Shares	553,838	0	0	112,167	0	666,005
	Rights/ Options**	350,015	0	82,848	112,167	0	155,000
Mr Myron Zlotnick	Shares	202,306	0	0	0	0	10,937
	Rights/ Options**	334,274	0	334,274	0	0	0
Mr Sam Allert	Shares	16,679	0	0	95,833	0	112,562
	Rights/ Options	294,332	0	60,949	95,833	0	137,550

* General Counsel appointment terminated 30 June 2018, company secretarial services contracted from 3 July 2018.

** The shares noted above exclude any Get Busy shares released or granted.

The following table outlines the changes in the amount of equity held by non-executive directors over the financial year:

Name	Instrument	Number Held at Open 2018	Granted FY17	Forfeited	Vested	Purchased / DRP	Number Held at Close 2018
		Number	Number	Number	Number	Number	Number
Mr Ian Ferrier*	Shares	102,159	n/a	n/a	n/a	0	102,159
	Rights/Options	n/a	n/a	n/a	n/a	n/a	n/a
Mr Greg Wilkinson	Shares	8,019,374	n/a	n/a	n/a	0	8,019,374
	Rights/Options	n/a	n/a	n/a	n/a	n/a	n/a
Mr Philip Hayman**	Shares	1,969,142	n/a	n/a	n/a	0	1,397,460
	Rights/Options	n/a	n/a	n/a	n/a	n/a	n/a

* Retired effective 1 July 2018.

** Appointed 1 July 2018.

The following table outlines the value of equity granted during the year that may be realised in the future:

2018 Equity Grants		Tranche	Total Value at Grant	Value Expensed in FY18	Max Value to be Expensed in Future Years	Min Value to be Expensed in Future Years
Name	Role					
Mr Clive Rabie	Group CEO	TSR	0	0	0	0
		EPS	0	0	0	0
		Service	Must be employed at end of performance period			
Mr Chris Hagglund	Group CFO	TSR	0	0	0	0
		EPS	0	0	0	0
		Service	Must be employed at end of performance period			
Mr Myron Zlotnick	General Counsel/CoSec	TSR	0	0	0	0
		EPS	0	0	0	0
		Service	Must be employed at end of performance period			
Mr Sam Allert	MD ANZ	TSR	0	0	0	0
		EPS	0	0	0	0
		Service	Must be employed at end of performance period			
TOTALS			0	0	0	0

Remuneration Report (Audited) (continued)

10 Other Remuneration Related Matters

The following outlines other remuneration related matters that may be of interest to stakeholders, in the interests of transparency and disclosure:

- Other than as disclosed, there were no loans to Directors or other KMP at any time during the reporting period and
- There were no relevant material transactions involving KMP other than compensation and transactions concerning shares, performance rights/options as discussed in this report.

The rules state that in all cases save as the rules provide otherwise, the Board has an over-riding discretion in relation to any of its powers under the Rules.

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' Meeting

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

Reckon Limited – Attendance Tables						
Directors	Meeting					
	Board		Audit & Risk Committee		Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Ian Ferrier	6	6	1	1	1	1
Greg Wilkinson	11	11	2	2	1	1
Clive Rabie	11	11	N/A	N/A	N/A	N/A
Phil Hayman	5	5	1	1	N/A	N/A
Sam Allert	5	5	N/A	N/A	N/A	N/A

Non-Audit Fees

Details of the non-audit services can be found in note 6 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 7 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 G Wilkinson

Chairman

Sydney 19 March 2019

The Board of Directors
Reckon Limited
Level 2
100 Pacific Highway
North Sydney NSW 2060

19 March 2019

Dear Board Members

Auditor's Independence Declaration to Reckon Limited

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

As lead audit partner for the audit of the financial report of Reckon Limited for the year ended 31 December 2018, 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 faithfully



DELOITTE TOUCHE TOHMATSU



John Bresolin
Partner
Chartered Accountants

Independent Auditor's Report to the Members of Reckon Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Reckon Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Capitalisation and carrying value of development costs	
As at 31 December 2018, the Group has capitalised developments costs totaling \$32.0m as disclosed in Note 11. The Group capitalises certain costs that are directly attributable to the development of intangible assets. As set out in Note 1 (x), significant judgement is involved in assessing whether the criteria for capitalisation of such costs has been met, particularly in determining: i) the appropriateness of the costs that can be capitalised and whether these costs were directly attributable to relevant products developed; and ii) the extent to which these capitalised development costs will generate sufficient economic benefit to support their carrying values.	Our procedures included, but were not limited to: • Discussing the products for which development costs have been capitalised with management, to develop an understanding of the nature and feasibility of the products at 31 December 2018, • Obtaining an understanding of the key controls in place over the process for recording and identifying qualifying costs to be capitalised, • Assessing the appropriateness of costs capitalised with reference to internal documentation, including, on a sample basis, agreeing payroll costs capitalised to supporting payroll and time records, and cost allocation calculations, and • Evaluating the appropriateness of the carrying value of the capitalised development costs by major product, with reference to historical and forecast cash flows, and analysis of sales trends. We also assessed the appropriateness of the disclosures in Note 11 to the financial statements.

Auditor's Report (continued)



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Impairment of goodwill	
As at 31 December 2018 the Group has recognized goodwill of \$29.3m as a result of historic acquisitions over a number of years as disclosed in Note 11. As set out in Note 1(x), the directors' assessment of the recoverability of goodwill requires the exercise of significant judgement, including; i) In identifying the cash generating units (CGU's) to which the goodwill has been allocated, and ii) In estimating the future growth rates, nominal discount rates and expected cash flows of each CGU.	Our procedures included, but were not limited to: - Assessing the Group's categorisation of CGU's and the allocation of goodwill to the carrying value of CGU's based on our understanding of the Group's business, - Challenging management's ability to accurately forecast cash flows by assessing the precision of the prior year forecasts against actual outcomes, - Engaging our valuation specialists to assist with: - Comparing the discount rate utilized by management to an independently calculated discount rate, - Comparing the Group's forecast cash flows to the board approved budget, and - Performing sensitivity analyses on the growth and discount rates. We also assessed the appropriateness of the disclosures in Note 11 to the financial statements.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Revenue recognition in respect of bundled goods and services	
As at 31 December 2018 the Group has reported Sales Revenue of \$75.4m from its continuing operations disclosed in Note 3. The statement of financial position also reflects contract liabilities (previously referred to as deferred revenue) of \$6.2m. The Group is required to recognise revenue when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. For bundled goods or services, significant judgement is required by management in determining the fair value attributable to each element of the bundled product.	Our procedures included, but were not limited to: • Testing controls over the recognition and measurement of revenue transactions, • Assessing the appropriateness of the Group's revenue recognition accounting policies for bundled goods and services and their compliance with the applicable accounting standards, and • Recalculating the fair value attributed to each element of the bundle, including; - Confirming the appropriateness of the logic used by Management in the underlying allocation model, - Ensuring the data inputs into the model have been properly extracted from underlying data sources, and - Creating an independent expectation of the margin to be applied, and comparing this to Management's margin. We also assessed the appropriateness of the disclosures in Note 1(o), 1(x) and 1(y) to the financial statements.

Auditor's Report (continued)



Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material of this other information, we are required to report that fact. We have nothing to report in this regard,

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 38 of the Directors' Report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Reckon Limited, for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.



DELOITTE TOUCHE TOHMATSU



John Bresolin
Partner
Chartered Accountants
Sydney, 19 March 2019

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes as set out on pages 49 to 102, 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 2018 and of the performance for the year ended on that date of the consolidated group;
2. The Chief Executive Officer and the Chief Finance Officer have each declared that:
 - The financial records of the company for the financial year have been properly maintained in accordance with s 286 of the Corporations Act 2001;
 - The financial statements and notes for the financial year comply with the Accounting Standards, and
 - The financial statements and notes for the financial year give a true and fair view;
 - That this opinion has been formed on the basis of a sound system of risk management and internal control which are operating effectively;
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors,



Mr G Wilkinson

Chairman

Sydney, 19 March 2019

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018

	Note	Consolidated	
		2018 \$'000	2017 \$'000
			Restated ¹
Continuing operations			
Revenue	3	75,427	80,337
Product costs	3	(9,231)	(9,858)
Employee benefits expenses		(23,140)	(27,155)
Share-based payments expenses	3	(186)	(588)
Marketing expenses		(3,394)	(3,549)
Premises and establishment expenses		(2,401)	(2,163)
Telecommunications		(584)	(660)
Legal and professional expenses		(961)	(781)
Other expenses		(4,959)	(4,310)
Transaction costs related to sale processes		(1,418)	(1,606)
Depreciation and amortisation of other non-current assets	3	(18,030)	(18,236)
Finance costs – bank loans and overdrafts		(1,532)	(1,706)
Profit before income tax		9,591	9,725
Income tax expense	5	(1,885)	(2,255)
Profit for the year from continuing operations		7,706	7,470
Profit from discontinued operations	4	-	158
Profit for the year attributable to owners of the parent		7,706	7,628
Earnings per share from continuing and discontinued operations			
		Cents	Cents
Basic Earnings per Share	20	6.8	6.8
Diluted Earnings per Share	20	6.8	6.6
Earnings per share from continuing operations			
		Cents	Cents
Basic Earnings per Share	20	6.8	6.6
Diluted Earnings per Share	20	6.8	6.5

1. Restated to include Practice Management Accountant Group in continuing operations (refer note 4)

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Note	Consolidated	
		2018 \$'000	2017 \$'000
			Restated
Profit for the year		7,706	7,628
Other comprehensive income/(loss), net of income tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of foreign operations	19	(458)	(1,849)
Fair value movement on interest rate swap	19	(72)	3
Total other comprehensive income/(loss), net of income tax		(530)	(1,846)
Total comprehensive income for the year attributable to the owners of the parent		7,176	5,782

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

Consolidated Statement of Financial Position

as at 31 December 2018

	Note	Consolidated	
		2018 \$'000	2017 \$'000
ASSETS			
Restated¹			
Current Assets			
Cash and cash equivalents	24	2,579	1,958
Trade and other receivables	7	7,103	10,010
Other financial assets	13	2,470	2,255
Inventories		1,959	2,835
Other assets	8	1,593	1,765
Total Current Assets		15,704	18,823
Non-Current Assets			
Receivables	7	288	40
Other financial assets	13	317	332
Property, plant and equipment	9	4,091	1,494
Deferred tax assets	10	103	410
Intangible assets	11	61,358	62,939
Other assets	8	52	1,533
Total Non-Current Assets		66,209	66,748
Total Assets		81,913	85,571
LIABILITIES			
Current Liabilities			
Trade and other payables		4,682	5,424
Borrowings	12	434	-
Provisions	14	2,657	3,004
Current tax payables		580	776
Contract liabilities (previously referred to as Deferred revenue)		6,223	5,996
Total Current Liabilities		14,576	15,200
Non-Current Liabilities			
Trade and other payables		1,917	-
Borrowings	12	44,562	50,606
Deferred tax liabilities	15	4,286	5,396
Provisions	14	973	1,270
Total Non-Current Liabilities		51,738	57,272
Total Liabilities		66,314	72,472
Net Assets		15,599	13,099
EQUITY			
Issued capital	18	19,712	19,459
Reserves	19	(50,023)	(49,266)
Retained earnings		45,910	42,906
Total Equity		15,599	13,099

1. Restated to include Practice Management Accountant Group assets and liabilities, previously disclosed as held for resale.

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 2018

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	Acquisition of non controlling interest reserve \$'000	Attributable to owners of the parent \$'000
Balance at 1 January 2018 (as previously reported)	19,459	(42,018)	(1,628)	396	136	42,906	(6,152)	13,099
Adjustment (refer note 1(y))	-	-	-	-	-	(1,316)	-	(1,316)
Balance at 1 January 2018	19,459	(42,018)	(1,628)	396	136	41,590	(6,152)	11,783
Profit for the year	-	-	-	-	-	7,706	-	7,706
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	-	(458)	-	-	-	-	(458)
Fair value movement on interest rate swap	-	-	-	-	(72)	-	-	(72)
Total comprehensive income	-	-	(458)	-	(72)	7,706	-	7,176
Share based payments expense	-	-	-	27	-	-	-	27
Dividends paid (note 25)	-	-	-	-	-	(3,386)	-	(3,386)
Treasury shares acquired	(1)	-	-	-	-	-	-	(1)
Treasury shares vested/lapsed	254	-	-	(254)	-	-	-	-
Balance at 31 December 2018	19,712	(42,018)	(2,086)	169	64	45,910	(6,152)	15,599

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

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2018

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	Acquisition of non-controlling interest reserve \$'000	Attributable to owners of the parent \$'000
Balance at 1 January 2017	18,707	(42,018)	221	668	133	65,159	(6,152)	36,718
Profit for the year	-	-	-	-	-	7,628	-	7,628
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	-	(1,849)	-	-	-	-	(1,849)
Fair value movement on interest rate swap	-	-	-	-	3	-	-	3
Total comprehensive income	-	-	(1,849)	-	3	7,628	-	5,782
Share based payments expense	-	-	-	480	-	-	-	480
Dividends paid (note 25)	-	-	-	-	-	(29,881)	-	(29,881)
Treasury shares vested/lapsed	752	-	-	(752)	-	-	-	-
Balance at 31 December 2017	19,459	(42,018)	(1,628)	396	136	42,906	(6,152)	13,099

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 2018

	Note	Consolidated Inflows/(Outflows)	
		2018 \$'000	2017 \$'000
Cash Flows From Operating Activities			
Receipts from customers		85,629	98,156
Payments to suppliers and employees		(56,605)	(67,862)
Payment for capitalised development costs		(14,689)	(18,165)
Proceeds from New Zealand government development grant		410	1,003
Interest paid		(1,532)	(1,706)
Income taxes paid		(2,333)	(1,775)
Net cash inflow from operating activities	24(b)	10,880	9,651
Cash Flows From Investing Activities			
Payment for intellectual property		(100)	-
Payment for investment in business		(57)	(196)
Net increase in loans receivable		(215)	(1,623)
Payment for property, plant and equipment		(946)	(686)
Net cash outflow from investing activities		(1,318)	(2,505)
Cash Flows From Financing Activities			
Proceeds from/(repayment of) borrowings		(6,044)	(992)
Payment for de-merger costs		-	(1,700)
Payment for treasury shares		(1)	-
Dividends paid to owners of the parent	25	(3,386)	(3,375)
Net cash outflow from financing activities		(9,431)	(6,067)
Net Increase / (Decrease) in cash and cash equivalents		131	1,079
Cash and cash equivalents at the beginning of the financial year		1,958	924
Effects of exchange rate changes on cash and cash equivalents		56	(45)
Cash and cash equivalents at the end of the financial year	24(a)	2,145	1,958

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

Notes to the Financial Statements

for the year ended 31 December 2018

1 Summary of Significant Accounting Policies

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

Basis of preparation

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

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

The financial statements were authorised by the directors on 19 March 2019.

The financial report has been prepared in accordance with the historical cost convention, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair values of the consideration given in exchange for assets. The company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year. Refer to note 1(y) for the impact of adoption of AASB 9 and AASB 15.

Significant Accounting Policies

(a) Basis of consolidation

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

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

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

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

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

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

Notes to the Financial Statements (continued)

(b) Business Combinations

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

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements and share-based payment arrangements are recognised and measured in accordance with the relevant accounting standards.

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

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

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

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

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

(c) 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) 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.

(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 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.

Notes to the Financial Statements (continued)

(g) Intangible assets

Goodwill

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

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

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

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

Intellectual Property

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

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

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

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

Research and development costs

Research expenditure is recognised as an expense when incurred.

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

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

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

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

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

(h) Income Tax

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

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

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

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

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Reckon Limited. The Group uses the standalone approach by reference to the carrying amounts in the separate financial statements of each entity in applying the accounting for tax consolidation.

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

(i) 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.

(j) 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.

Notes to the Financial Statements (continued)

(k) Employee Benefits

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

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

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

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

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

(l) Trade receivables and other receivables

Trade receivables and other receivables are recorded at amortised cost, less provision for impairment in accordance with the simplified approach see note 1(y).

(m) Financial assets

Loan receivables are initially recognised at fair value of the loan written and subsequently measured at amortised cost using the effective interest rate method, less provision for expected credit losses. Given the nature of loans written, a lifetime expected credit loss provision is taken up upon initial recognition of a consumer loan receivable. The loan balance is categorized into current and non-current according to the due date within the contracted loan terms. Amounts due within 12 months are classified as current assets, with the remainder classified as non-current assets..

(n) Impairment of assets

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

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

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

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

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

(o) Revenue Recognition

Sale of goods and services

The Group applies the following 5-step model for revenue recognition related to contracts with customers:

- a. Identify the contract(s) with customer
- b. Identify the performance obligation in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligation in the contract
- e. Recognise revenue when or as the entity satisfied in performance obligations.

The Group recognises sales revenue related to the transfer of promised goods or services when a performance obligation is satisfied and when control of the goods or services passes to the customer, which is when the customer receives the product upon delivery. The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods or services. If the consideration promised includes a variable amount, the Group estimates the amount of consideration to which it will be entitled and only to the extent that it is highly probable that a significant reversal of revenue will not occur.

Contracts with customers can include various combinations of products and services, which are in certain circumstances bundled and in other circumstances are capable of being distinct and accounted for as separate performance obligations. Where a contract with multiple performance obligations that is not bundled, the revenue associated with each obligation is calculated based on its stand-alone selling price.

Revenue is recognised over time if:

- the customer simultaneously receives and consumes the benefits as the entity performs;
- the customer controls the asset as the entity creates or enhances it; or
- the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria is not met, revenue is recognised at a point in time.

The Group recognises revenue predominantly from the following sale of software and services:

Business Group desktop products

Business Group desktop products are sold with post-sale technical support services. This can be sold as a once-off package, or on an annual subscription basis. For all Business Group desktop products contracts that contain the sale of a license, three distinct performance obligations are:

- i. Sale of a software/upgrade license; and
- ii. The provision of minor maintenance updates which may be made available over the period of the contracts; and
- iii. Post-sale technical support for a specified period of time.

Notes to the Financial Statements (continued)

Revenue is recognised for a Business Group desktop licence at the point of sale. This is because customers purchase a specific version of the software that exists at the time the licence is granted.

Revenue is recognised for the customer's entitlement to access additional maintenance updates and the provision of post-sale technical support over the time of the contract with the customer. This is due to the fact that Reckon may provide minor maintenance updates to which the customer may be entitled over the term of the contract. In relation to the post-sale technical support, the customer is deemed to simultaneously receive and consume the benefits provided by Reckon's performance of the post-sale technical support services as it is performed.

Revenue is recognised for Business Group desktop post-sale technical support over the time of the contract with the customer. This is due to the fact that the customer simultaneously receives and consumes the benefits provided by the Reckon's performance of the post-sale technical support services as it is performed.

The price allocated to each performance obligation is determined based on the determined stand-alone selling prices of each performance obligation. The price allocated to the sale of the software license has been determined by using the adjusted market assessment approach. The price allocated to the post-sale technical support has been determined on management's assessment by using an expected cost plus a margin approach. The relative standalone selling price has been apportioned to each performance obligation based on these methods.

Reckon also sells upgrades of the Business Group desktop licence separately. Revenue is recognised for these products at the point of sale.

This revenue stream forms part of "Subscription revenue" and "Other recurring revenue" as outlined in Note 1(y).

Reckon One (Business Group)

Reckon One is a cloud software as a service (sold on a monthly subscription basis) that is accessible to a customer through their web browser, and is sold with post-sale technical support services. Within these contracts, the goods and services provided are:

- i. Sale of a license;
- ii. Ongoing maintenance of the cloud platform to ensure that it is accessible; and
- iii. Post-sale technical support for a specified period of time.

As the customer is not able to benefit from the license if the cloud is not accessible, two distinct performance obligations generally are:

- i. Sale of a license and ongoing maintenance for access to the cloud; and
- ii. Post-sale technical support.

The transaction price is fixed in the contract entered into by the customer dependent on the specific modules purchased.

Revenue for the license and ongoing maintenance for the Reckon One product is recognised over the time of the contract with the customer. Reckon is providing a continuous service of making the online portal available during the contract period and the customer simultaneously receives and consumes the benefits provided by Reckon's performance as Reckon delivers the service.

Revenue for the post-sale technical support provided is also recognised over time. This is due to the fact that the customer simultaneously receives and consumes the benefits provided by the Reckon's performance of the post-sale technical support services. The services are made available to the customer throughout the term of the contract.

Although there are two distinct performance obligations, both currently maintain the same contractual billing period and are recognised over time. Accordingly, Reckon have deemed it unnecessary to allocate the transaction price allocated to each performance obligation separately.

This revenue stream forms part of “Subscription revenue” as outlined in Note 1(y). Subscription revenue relates to streams where customers pay for the services over the life of the contract, rather than upfront at the commencement of the contract.

Reckon Accounts Hosted (Business Group)

Reckon Accounts Hosted is a hosted software where software is accessible via a web browser or through a desktop icon, and allows the customer to store data on the customer’s device or an external server. Reckon Accounts Hosted can be sold on an annual or monthly subscription basis. For all Reckon Accounts Hosted contracts that contain the sale of a license, the good and services provided are:

- i. Sale of a software license;
- ii. Post-sale technical support for a specified period of time; and
- iii. Hosting services for a specified period of time.

Each of the contract promises are considered as a distinct performance obligation because the customer can benefit from the use the software without the provision of the technical support and/or hosting services and they are distinct within the context of the contract.

Revenue is recognised for a Reckon Accounts Hosted license at the point of sale. This is because customers purchase a specific version of the software that exists at the time the license is granted.

Revenue for the hosting services and ongoing support is recognised over time. Reckon is providing a continuous service of hosting the customer’s data and providing post-sale technical support over the contract period and the customer simultaneously receives and consumes the benefits provided by Reckon’s performance as Reckon performs. The services are made available to the customer throughout the term of the contract

The price allocated to each performance obligation is determined based on the determined stand-alone selling prices of each performance obligation. The price allocated to the sale of the software license has been determined by using the adjusted market assessment approach. The price allocated to the hosting services and post-sale technical support has been determined on management’s assessment by using an expected cost plus a margin approach. The relative standalone selling price has been apportioned to each performance obligation based on these methods.

This revenue stream forms part of “Subscription revenue” as outlined in Note 1(y). Subscription revenue relates to streams where customers pay for the services over the life of the contract, rather than upfront at the commencement of the contract.

Membership fees (Business Group)

Membership revenue relates to fees obtained as part of the Reckon’s Partner Program. Memberships are sold on an annual basis. For all Membership contracts, the goods and services provided include:

- i. The provision of software licences;
- ii. Access to a dedicated partner support team;
- iii. A partner resource kit;
- iv. Invitations to exclusive events and training;
- v. Marketing tool kits; and
- vi. Annual partner awards.

Each of the contract promises above are considered to be a distinct performance obligations because the customer can benefit from the use the software without the provision of the other contract promises listed above and they are distinct within the context of the contract.

Notes to the Financial Statements (continued)

Revenue is recognised for a software license at the point of sale. This is because customers purchase and obtain a specific version of the software that exists at the time the license is granted.

Revenue for the remaining benefits of joining the membership is recognised over time. Reckon provides a range of different services which are delivered to the customer over the life of the contract. The nature of the services are such that the customer simultaneously receives and consumes the benefits provided by Reckon's performance as Reckon performs.

The price allocated to each performance obligation is determined based on the determined stand-alone selling prices of each performance obligation. The price allocated to the software license has been determined based on the adjusted market assessment approach. The price allocated to the remaining performance obligations has been determined on management's assessment by using an expected cost plus a margin approach. The relative standalone selling price has been apportioned to each performance obligation based on these methods.

This revenue stream forms part of "Other revenue" as outlined in Note 1(y).

Practice Management Accountant Group

APS is a desktop/cloud hybrid software as a service (sold on a subscription basis) that is accessible to a customer for download through their web browser. This is sold with implementation services and the promise of specific upgrades to the software modules. Without the required upgrades, the software would not be functional for the customer. Technical support is also provided over the contract period.

The following are the goods and services provided:

- i. Sale of a license;
- ii. Implementation services;
- iii. Specific upgrades for the functionality of the software;
- iv. Ongoing maintenance of the hosted platform to ensure that the software is accessible; and
- v. Post-sale technical support for a specified period of time.

A customer is not able to benefit from the software without the implementation services and the specific upgrades, as they are critical to the functioning of the software in its intended use. Knowledge of how to implement the software and pass on the upgrades is proprietary to Reckon and therefore only Reckon can perform this. Therefore, the customer is not able to use readily available resources to perform the implementation or pass on upgrades. Therefore, one distinct performance obligation has been identified for the bundle of the sale of a license, implementation services, upgrades, and maintenance.

Post-sale technical support has been identified as a separate performance obligation. This is because the customer can benefit from the use of the software without the provision of the technical support and:

- i. The license and technical support do not significantly modify or customise each other.
- ii. The license and technical support are not highly interdependent or highly interrelated as one does not significantly affect the other.

Revenue for the performance obligation (being the bundled license, implementation services, upgrades and maintenance) is recognised over time. Reckon is providing a continuous service of making the software, upgrades and the online portal available during the contract period and the customer simultaneously receives and consumes the benefits provided by Reckon's performance as Reckon performs.

Accordingly revenue is recognised for Practice Management Accountant Group post-sale technical support over the time of the contract with the customer.

As both performance obligations are recognised over the same period of time, Reckon has deemed it unnecessary to allocate the transaction price attributed to each performance obligation separately.

This revenue stream forms part of “Subscriptions revenue” as outlined in Note 1(y). Subscriptions revenue relates to streams where customers pay for the services over the life of the contract, rather than upfront at the commencement of the contract.

Corporate Services (Practice Management Accountant Group)

Corporate Services revenue relates to the provision of services including the registration of companies, provision of template trust deeds and provision of company search information. These services are sold as once-off products on an ad-hoc basis as required by a customer and deemed to have one distinct performance obligation for the services provided.

Revenue is recognised for a corporate services at the point of sale. This is because the services are provided to the customer immediately once payment is made and there is not further obligation linked to this good.

This revenue stream forms part of “Other revenue as outlined in Note 1(y).

Practice Management Legal Group

The Practice Management Legal Group sells nQueue software and some hardware to the customer. nQueue’s product is a cost recovery software which allows customers to track the costs associated with printing, photocopying, and other disbursements and allocate these costs to their clients. nQueue also provides scanning and print solutions to its clients. nQueue licenses are sold with implementation and post-sale technical support services.

For Practice Management Legal Group, two distinct performance obligations have been identified:

- i. The provision of the software license and implementation services; and
- ii. The provision of support services over the life of the contract.

The sale of license and implementation services have been identified as one distinct performance obligation because the customer is not able to benefit from the software without the implementation services and the knowledge of how to implement the software is proprietary to Reckon.

The support services have been deemed to be a separately distinct performance obligation. These services are provided to customers who have existing contracts with nQueue. Customers can choose to purchase the support services on a yearly basis. As such, the customer can benefit from support services on their own. It is noted that support services are all separately identifiable within the context of the contract because support services do not significantly modify the software.

The price allocated to the provision of the software licence and implementation services, and well as the price allocated to the support services is based upon a price list and is therefore separately identifiable.

Revenue for the software licence and implementation services is recognised as and when the performance obligation is transferred which is generally when installation is completed.

Conversely, revenue for the provision of support services is recognised over the life of the contract as the benefits from any support is simultaneously consumed by the customer as it is provided. The services are made available to the customer throughout the term of the contract.

This software licence and implementation services revenue above forms part of “Other revenue” and revenue from the provision of support services forms part of “Subscription revenue” as described in Note 1(y).

Cost of obtaining a customer contract

AASB 15 requires that incremental costs associated with acquiring customer contract, such as sales commissions, are recognised as an asset and amortised over a period that corresponds with the period of benefit.

An assesment of commissions paid by the Group was performed in connection with the sale of accounting software products. The contracts for which commissions are paid have a duration of 12 months or less. Applying the practical

Notes to the Financial Statements (continued)

expedient in paragraph 94 of AASB 15 for these contracts based on their duration of 12 months or less, the Group continues to recognise the incremental costs of obtaining these contracts as an expense when incurred.

There are no other costs incurred that are considered to be incremental.

The following table summarises the revenue recognition of major sale of software and services:

Revenue stream	Performance obligation	Timing of recognition
Business Group desktop products	Sale of a software license.	At the point of sale.
	Maintenance updates.	Over the time of the contract with the customer.
	Post-sale technical support for a specified period of time.	Over the time of the contract with the customer.
Reckon One	Sale of license and ongoing maintenance for access to the cloud.	Over the time of the contract with the customer.
	Post-sale technical support for a specified period of time.	Over the time of the contract with the customer.
Reckon Accounts Hosted	Sale of a software license.	At the point of sale.
	Post-sale technical support for a specified period of time.	Over the time of the contract with the customer.
	Hosting services for a specified period of time.	Over the time of the contract with the customer.
Membership fees - sale of license	Sale of a software license	At the point of sale
Membership - Support	Additional membership benefits	Over the time of the contract with the customer
Practice Management Accountant Group	Sale of a bundled license, implementation services, upgrade and maintenance.	Over the time of the contract with the customer.
	Post-sale technical support.	Over the time of the contract with the customer.
Corporate Services revenue	The provision of corporate services	At the point of sale
Practice Management Legal Group	The provision of the software license and implementation services.	At the point of sale.
	The provision of support services over the life of the contract	Over the time of the contract with the customer.

Interest

Interest revenue relates to revenue recognised from the provision of loans to customers and is accounted for per the requirements of AASB 9 Financial Instruments. Interest revenue is recognised as interest accrues using the effective interest method, which is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(p) Contract liabilities (previously referred to as deferred revenue)

Contract liabilities relate to payments received from customers for performance obligations which have not yet been fulfilled. Contract liabilities arise when payment for performance obligations do not match the timing of when the performance obligations are satisfied. Contract liabilities are recognised at the inception of the contract and unwound as the performance obligation is satisfied over the life of the contract.

(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.

(r) Cash and cash equivalents

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

(s) Borrowings

Borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(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.

Notes to the Financial Statements (continued)

(v) Government Grants

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

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

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

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

(w) Hedge Accounting

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of derivative financial instruments are disclosed in note 13.

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

The Group designates certain hedging instruments, as cash flow hedges.

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

Note 13 sets out details of the fair values of the derivative instruments used for hedging purposes.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of swap hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or nonfinancial liability.

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

(x) 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 – The Group has made judgements in relation to the bundling of contract promises into a single distinct performance obligation by determining whether the contract promises are separately identifiable in the context of the contract. The Group has also used judgement in allocating the transaction price to revenue streams which have more than one performance obligation and where the stand-alone selling price is not directly observable. The Group has applied the expected cost plus a margin approach in estimating these prices as described in Note 1(o) above.

ECL on impairment of financial assets – An allowance for doubtful debts is recognised based on the expected credit loss (ECL) from the time the receivable is initially recognised. The ECL is based on a provision matrix that reflects the Group's historical credit loss experience, adjusted for management's knowledge of specific customers' circumstances, as well as current collection trends and business conditions.

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 will usually be determined using a model that adopts Monte Carlo simulation approach.

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.

(y) New accounting standards not yet effective

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 Leases	1 January 2019	31 December 2019

Notes to the Financial Statements (continued)

Impact of New Accounting Standards

(a) AASB 9 Financial Instruments

The Group has adopted AASB 9 Financial Instruments from 1 January 2018.

AASB 9 changes the classification of complex financial instruments, calculation of impairment losses in financial assets, and hedge accounting.

Reckon has no complex financial instruments. As a result these changes have not impacted Reckon.

The calculation of impairment losses impacts the way Reckon calculates the bad debts provision, now termed the credit loss allowance. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The short term loan receivables relating to the partnership with Prospa are loans that are expected to be received within 12 months. General approach is used to determine the lifetime expected credit loss of the short-term loan receivables. The Group has determined that the expected loss rate for the short-term loan receivables to be 6.12%.

To determine the expected credit loss of trade receivables, a provision matrix is used based on historic credit loss rates for each group of customers, adjusted for any material expected changes to the customers' future credit risk and other economic factors. On that basis, the credit loss allowance as at 31 December 2018 was determined as follows:

Provision matrix	Business Group	Practice Management Legal Group	Practice Management Accountant Group
Current	0.00%	1.43%	0.15%
Past due 1 to 30 days	0.05%	2.04%	0.48%
Past due 31 to 60 days	0.08%	2.65%	1.42%
Past due over 60 days	0.11%	3.40%	2.45%

Gross Carrying Amount Receivables	Business Group \$'000	Practice Management Legal Group \$'000	Practice Management Accountant Group \$'000	Group \$'000
Current	382	1,954	1,405	3,741
Past due 1 to 30 days	45	628	401	1,074
Past due 31 to 60 days	13	122	202	337
Past due over 60 days	62	1,564	318	1,944
Total receivables	502	4,268	2,326	7,096
Allowance based on historic credit losses	3	97	15	115
Adjustment for expected changes in credit risk ¹	13	172	169	354
Expected credit loss allowance	16	269	184	469
Net carrying amount	486	3,999	2,142	6,627

1. Adjustment to reflect the expected change in the probability of default relating to customers that are over 60 days past due.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there are no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The Group has applied the exception under AASB 9 to not restate comparatives as the credit loss allowance under AASB 139 and AASB 9 did not result in material changes to the amounts previously reported

(b) AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 January 2018 by using the modified retrospective method of transition. This has had a material impact on the current period as outlined below.

The Group has amended the accounting policy related to revenue recognition of the implementation component of subscription revenue in the Practice Management Accountant Group in order to comply with AASB 15. Implementation revenue was previously recognised once the installation was completed, whereas this revenue is now spread over the term of the contract.

Notes to the Financial Statements (continued)

The Group does not grant customers the right of returning purchased software. Further, the Group does not receive from customers any nonrefundable upfront fees which relate to specific goods or services and material rights. As such, there is no impact from AASB 15 on such aspects.

For the results and balance sheet, the impact would have been as follows:

	2017		
	AASB15 Restatement	Prepared under AASB15	Previously reported under AASB 118
	\$'000	\$'000	\$'000
Revenue	(39)	80,298	80,337
Profit attributable to the owners of the parent	(27)	7,601	7,628
Other assets - current	(467)	1,298	1,765
Other assets - non current	(1,400)	133	1,533
Deferred tax liabilities	551	(4,845)	(5,396)
Retained earnings	(1,316)	41,590	42,906

	2018		
	Impact of AASB15	Prepared under AASB15	Prepared under AASB 118
	\$'000	\$'000	\$'000
Revenue	658	75,427	74,769
Profit attributable to the owners of the parent	474	7,706	7,232
Other assets - current	(646)	1,593	2,239
Other assets - non current	(581)	52	633
Deferred tax liabilities	367	(4,286)	(4,653)
Retained earnings	(860)	45,910	46,770

Reckon generates revenue from the following revenue streams:

Primary segments	Product Description	Revenue recognition	Business Group \$'000	Practice Management Accountant Group \$'000	Practice Management Legal Group \$'000	Consolidated Group \$'000
2018						
Subscription revenue	Bundled license, support, hosting and implementation	Over time	-	23,295	-	23,295
	License, support and hosting	Over time	6,449	-	8,432	14,881
	License	Point in time	21,273	-	-	21,273
Other recurring revenue	Support	Over time	372	-	-	372
	License	Point in time	2,914	-	-	2,914
Loan income	Interest	Over time	925	-	-	925
Other revenue	Membership support	Over time	453	-	-	453
	Membership fees	Point in time	2,488	-	-	2,488
	Corporate services	Point in time	-	5,646	-	5,646
	License and implementation	Point in time	-	492	2,381	2,873
	Other	Point in time	307	-	-	307
Total revenue			35,181	29,433	10,813	75,427
2017 (under AASB 15)						
Subscription revenue	Bundled license, support, hosting and implementation	Over time	-	23,511	-	23,511
	License, support and hosting	Over time	5,815	-	8,917	14,732
	License	Point in time	21,428	-	-	21,428
Other recurring revenue	Support	Over time	506	-	-	506
	License	Point in time	3,638	-	-	3,638
Loan income	Interest	Over time	722	-	-	722
Other revenue	Membership support	Over time	485	-	-	485
	Membership fees	Point in time	2,661	-	-	2,661
	Corporate services	Point in time	-	6,646	-	6,646
	License and implementation	Point in time	-	1,217	4,090	5,307
	Other	Point in time	662	-	-	662
Total revenue			35,917	31,374	13,007	80,298

Each of the above services delivered to customers are considered separate performance obligations, even though for practical expedience may be governed by a single legal contract with the customer.

Notes to the Financial Statements (continued)

Contract terms vary between divisions, such that in some cases customers can benefit from the use of the software without the provision of support and implementation services, in which case revenue is recognised at a point in time. In other instances the provision of implementation and support services as well as upgrades is integral to the functionality of the software; in this case revenue is recognised over time.

(c) AASB 16 Leases

AASB 16 is effective for years commencing 1 January 2019. AASB 16 eliminates the classification of leases as either operating leases or finance leases as required by AASB 117 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- amortisation of lease assets separately from interest on lease liabilities in the income statement.

Reckons operating leases with terms of more than 12 months relate to property leases.

The adoption of AASB 16 will result in revised accounting for any property operating leases that have a lease end date of 31 December 2019 or later.

The estimated impact on the opening balance sheet as at 1 January 2019 and income statement impact for 2019 is expected to be as follows:

Balance Sheet Impact	\$'000
Net increase in non-current asset (recognition of lease assets)	8,761
Increase in deferred tax asset	34
Net increase in liabilities from recognition of lease liabilities	8,873
Net decrease in retained earnings (higher expense recognised under AASB 16)	(78)

Income statement impact	\$'000
Net decrease in operating expense resulting in an increase in EBITDA	(1,202)
Net increase in interest expense	200
Net increase in depreciation and amortisation expense	1,069
Decrease in net profit before tax	(67)

2 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 four operating divisions:

- Business Group
- Accountant Practice Management Group
- Legal Practice Management Group
- Document Management Group (Discontinued operation)

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

The principal activities of these divisions are as follows:

- Business Group - development, distribution and support of business accounting and personal financial software, as well as related products and services. Products sold in this division include Reckon Accounts and Reckon One.
- Practice Management Accountant Group - development, distribution and support of practice management, tax, client accounting and related software under the APS brand as well as the Reckon Docs and Reckon Elite products.
- Practice Management Legal Group - development, distribution and support of cost recovery, cost management, scan and related software under the nQueue Billback brand predominantly to the legal market.
- Document Management Group - development, distribution and support of document management and client portal products under the Virtual Cabinet and Smart Vault brands. This division was de-merged during 2017 and is thus included in discontinued operations.

Segment revenues and results	2018 \$'000	2017 \$'000
		Restated¹
Operating revenue		
Business Group	35,181	35,917
Practice Management Accountant Group	29,433	31,413
Practice Management Legal Group	10,813	13,007
Continuing operations	75,427	80,337
Discontinued operations	-	9,983
Total revenue	75,427	90,320

1. Restated to include Practice Management Accountant Group in continuing operations (refer note 4).

Notes to the Financial Statements (continued)

2 Segment Information (continued)

	2018 \$'000	2018 \$'000	2018 \$'000	2017 \$'000	2017 \$'000	2017 \$'000
Segment results	Continuing business	Discontinued business	Total	Continuing business	Discontinued business	Total
				Restated ¹	Restated ¹	Restated ¹
EBITDA						
Business Group	16,975			17,242		
Practice Management Accountant Group	15,353			15,338		
Practice Management Legal Group	1,645			3,424		
Central administration costs	(3,402)			(4,731)		
	30,571	-	30,571	31,273	1,905	33,178
Depreciation and amortisation						
Business Group	(9,018)			(9,429)		
Practice Management Accountant Group	(5,809)			(5,934)		
Practice Management Legal Group	(3,203)			(2,873)		
	(18,030)	-	(18,030)	(18,236)	(2,039)	(20,275)
Transaction costs	-	-	(1,418)	(1,606)	-	(1,606)
Finance costs			(1,532)	(1,706)	-	(1,706)
Profit before income tax			9,591	9,725	(134)	9,591
Income tax expense			(1,885)	(2,255)	292	(1,963)
Profit for the year			7,706	7,470	158	7,628

1. Restated to include Practice Management Accountant Group in continuing operations (refer note 4)

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.

No single customer contributed 10% or more of Group revenue for either 2018 or 2017.

EBITDA above means earnings before interest, depreciation and amortisation.

2 Segment Information (continued)

Segment assets and liabilities	Assets		Liabilities		Additions to non-current assets	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Business Group	18,254	20,055	9,127	7,791	7,927	6,150
Practice Management Legal Group	15,838	17,209	5,197	5,427	2,427	2,673
Practice Management Accountant Group	43,296	43,911	1,937	5,397	7,319	7,310
Document Management Group	-	-	-	-	-	2,013
Corporate Division	4,525	4,396	50,053	53,857	-	-
	81,913	85,571	66,314	72,472	17,673	18,146

(b) Geographical information

	Continuing business revenue from external customers		Non-current assets	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
	Restated			
Australia	58,329	60,912	54,953	56,242
United States of America	8,414	10,161	6,358	5,597
Other countries (i)	8,684	9,264	4,898	4,909
	75,427	80,337	66,209	66,748

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

Notes to the Financial Statements (continued)

3 Profit for the Year

Consolidated		
	2018 \$'000	2017 \$'000
Restated		
Profit before income tax includes the following items of revenue and expense:		
Revenue		
Sales revenue		
Subscription revenue	59,449	59,710
Other recurring revenue	3,286	4,144
Loans revenue	925	722
Other revenue	11,767	15,761
Sale of goods and rendering of services	75,427	80,337
Other Revenue		
Interest revenue	-	-
	75,427	80,337
Expenses		
Product costs	9,231	9,858
Bad debt expense:		
Other Entities	1,001	69
Depreciation of non-current assets:		
Property, plant and equipment	741	678
Amortisation of non-current assets:		
Leasehold improvements	302	107
Intellectual property	459	929
Development costs	16,528	16,522
Total depreciation and amortisation	18,030	18,236
Foreign exchange losses/(gains)	(64)	120
Employee benefits expense:		
Post employment benefits – defined contribution plans	2,020	2,401
Termination benefits	319	779
Share based payments:		
Equity-settled share-based payments	186	480
Cash-settled share-based payments	-	108
	186	588
Operating lease rental expenses:		
Minimum lease payments	2,287	2,012

4 Discontinued operations

The Document Management Group was de-merged on 4 August 2017 into an independent company and the shares admitted to trading on the AIM market of the London Stock Exchange.

	Consolidated	
	2018 \$'000	2017 \$'000
		Restated¹
Revenue	-	9,983
Expenses	-	(10,117)
Profit/(loss) before tax	-	(134)
Attributable income tax benefit/(expense)	-	292
Profit from discontinued operations attributable to owners of the parent	-	158
Net cash outflow from operating activities	-	(1,070)
Net cash outflow from investing activities	-	(136)
	-	(1,206)

1. In the prior year accounts the Practice Management Accountant Group was also treated as a discontinued operation as agreement had been reached to sell this business subject to ACCC and NZCC approval. This sale did not proceed and this division is now included in continuing operations.

Notes to the Financial Statements (continued)

5 Income Tax

	Consolidated	
	2018 \$'000	2017 \$'000
		Restated
(a) Income tax expense recognised in profit and loss		
Current tax	3,213	3,212
Deferred tax	(803)	(743)
Under /(over) provided in prior years	(525)	(214)
	1,885	2,255
(b) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before income tax	9,591	9,725
Income tax expense calculated at 30% of profit	2,877	2,918
Tax Effect of:		
Effect of lower tax rates on overseas income	(100)	(63)
Tax effect of non-deductible/non-taxable items:		
Research and development claims	(626)	(654)
Sundry items	259	268
	2,410	2,469
Under/(over) provision in prior years	(525)	(214)
Income tax expense attributable to profit	1,885	2,255
(c) Future income tax benefits not brought to account as an asset:		
Tax losses:		
Revenue	477	-
Capital	3,229	1,770
	3,706	1,770

The tax rate used for the 2018 and 2017 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

6 Remuneration of Auditors

	Consolidated	
	2018 \$	2017 \$
(a) Deloitte Touche Tohmatsu		

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

Auditing and reviewing of financial reports	257,125	235,424
Tax compliance and other consulting services	234,219	401,492
	491,344	639,916

(b) Other Auditors		
Auditing and reviewing of financial reports	68,099	31,162
Tax compliance services	188,949	78,841
	257,048	110,003
	748,392	746,919

Notes to the Financial Statements (continued)

7 Trade and Other Receivables

	Consolidated	
	2018 \$'000	2017 \$'000
Current:		
Trade receivables (i)	7,096	9,090
Expected Credit Loss (ECL)	(469)	(340)
	6,627	8,750
Other receivables	476	1,260
	7,103	10,010
Non-current:		
Trade receivables	258	-
Other receivables	30	40
	288	40

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

Past due 0 – 30 days	1,074	775
Past due 31 – 60 days	337	578
Past due 61+ days	1,944	1,668
Total	3,355	3,020

The movement in the ECL in respect of trade receivables is detailed below:

Balance at beginning of the year	340	315
Amounts written off during the year	(1,001)	(69)
Increase/(reduction) in ECL recognised in the profit and loss	1,130	94
Balance at end of year	469	340

8 Other Assets

	Consolidated	
	2018 \$'000	2017 \$'000
Current:		
Prepayments	1,565	1,265
Other	28	500
	1,593	1,765
Non current:		
Prepayments	-	47
Other	52	1,486
	52	1,533

Notes to the Financial Statements (continued)

9 Property, Plant and Equipment

	Consolidated	
	2018 \$'000	2017 \$'000
Leasehold Improvements		
At cost	5,082	2,921
Less: Accumulated amortisation	(2,909)	(2,589)
Total leasehold improvements	2,173	332

Plant and equipment		
At cost	11,148	9,520
Less: Accumulated depreciation	(9,230)	(8,358)
Total plant and equipment	1,918	1,162
	4,091	1,494

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
Consolidated			
Carrying amount at 1 January 2018	332	1,162	1,494
Additions	598	348	946
Effect of foreign currency exchange differences	26	153	179
Transferred from inventory	-	1,038	1,038
Capitalised lease incentive	1,519	-	1,519
Depreciation/amortisation expense	(302)	(783)	(1,085)
Balance at 31 December 2018	2,173	1,918	4,091

Consolidated			
Carrying amount at 1 January 2017	392	2,060	2,452
Additions	129	557	686
Effect of foreign currency exchange differences	(21)	(75)	(96)
De-merger of Document Management Group	(61)	(491)	(552)
Depreciation/amortisation expense	(107)	(889)	(996)
Balance at 31 December 2017	332	1,162	1,494

10 Deferred Tax Assets

	Consolidated	
	2018 \$'000	2017 \$'000

The balance comprises temporary differences attributable to:

Doubtful debts	15	9
Employee benefits	34	58
Other provisions	54	343
	<u>103</u>	<u>410</u>

Details of unrecognised deferred tax assets can be found in Note 5(c)

Reconciliation:

Opening balance at 1 January	410	948
De-merger of Document Management Group	-	(259)
(Charged) / credited to profit or loss	<u>(307)</u>	<u>(279)</u>
Balance at 31 December	<u>103</u>	<u>410</u>

11 Intangibles

Intellectual property – at cost (i)	14,962	14,863
Accumulated amortisation	<u>(14,873)</u>	<u>(14,415)</u>
	<u>89</u>	<u>448</u>

Development costs – at cost	137,224	122,791
Accumulated amortisation	<u>(105,273)</u>	<u>(88,633)</u>
	<u>31,951</u>	<u>34,158</u>

Goodwill – at cost	29,318	28,333
	<u>61,358</u>	<u>62,939</u>

(i) The intellectual property carrying amount comprises of customer contracts.

Notes to the Financial Statements (continued)

11 Intangibles (continued)

	Consolidated	
	2018 \$'000	2017 \$'000

Impairment test for goodwill

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

Business Group	730	-
Accountant Practice Management Group	25,765	25,765
Legal Practice Management Group	2,823	2,568
	29,318	28,333

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 (2019) period. Subsequent cash flows are projected using constant long term average growth rates of 2.5% per annum. An average post-tax discount rate of 9.4% (2017: 9.4%) (pre-tax rate: 13.4%) reflecting assessed risks associated with CGU's has been applied to determine the present value of future cash flow projections for all CGU's. No impairment write-offs have been recognised during the year (2017: nil). Sensitivity analysis performed indicates that if a change in profit reflected in the models were to decrease by up to 15% for the respective CGU's, there would be no impairment.

Consolidated movements in intangibles	Goodwill \$'000	Intellectual Property \$'000	Development Costs \$'000	Total \$'000
At 1 January 2018	28,333	448	34,158	62,939
Additions	730	100	14,321	15,151
Effect of foreign currency exchange differences	255	-	-	255
Amortisation charge	-	(459)	(16,528)	(16,987)
At 31 December 2018	29,318	89	31,951	61,358
At 1 January 2017	49,617	6,097	39,843	95,557
Additions	-	-	17,264	17,264
Effect of foreign currency exchange differences	(1,923)	42	67	(1,814)
De-merger of Document Management Group	(19,361)	(3,925)	(5,401)	(28,687)
Amortisation charge	-	(1,766)	(17,615)	(19,381)
At 31 December 2017	28,333	448	34,158	62,939

12 Borrowings

	Consolidated	
	2018 \$'000	2017 \$'000
Current:		
Bank overdraft (i)	434	-
Non-current		
Bank borrowings (i)	44,562	50,606

(i) The consolidated entity has decreased its bank facilities to \$63 million during the year. The facility comprises variable rate bank overdraft facilities, loan facilities, and bank guarantee and transactional facilities. The loan facilities and \$1m of the bank overdraft facility was extended in December 2018 and now expires in March 2020 and the remaining facilities are subject to annual review expiring in April 2019. The facility is secured over the Australian, New Zealand and United Kingdom net assets. Reckon has partially hedged the bank borrowings – refer note 13.

2018			
	Bank overdraft \$'000	Loan facility \$'000	Bank guarantee & transaction facility \$'000

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

Available	2,000	56,000	4,710
Used	434	44,562	2,397
Unused	1,566	11,438	2,313

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

0-12 months	434	-	2,397
2-5 years	-	44,562	-
Weighted average interest rate	5.04%	3.59%	-

Notes to the Financial Statements (continued)

13 Other financial assets/(liabilities)

	Consolidated	
	2018 \$'000	2017 \$'000
Current:		
Loans receivable (ii)	2,470	2,255
Non-current:		
Other investments	253	196
Derivative that is designated and effective as a hedging instrument carried at fair value (i)	64	136
	317	332

(i) This balance represents an interest rate swap. To reduce the fair value risk of changing interest rates, the Group has entered into a pay-floating receive-fixed interest rate swap. The swap's notional principal is \$23 million and represents 53% of the bank borrowings outstanding at 31 December 2018. The swap matures in July/August 2019. The fixed interest rate is 3.21%, and interest rate swaps are settled monthly or quarterly. Within the context of AASB 7, this is classified as a level 2 fair value measurement being derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly.

(ii) The loan receivable is net of an Expected Credit Loss allowance of \$158 thousand in 2018 (2017: \$119 thousand) .

14 Provisions

	Consolidated	
	2018 \$'000	2017 \$'000
Current:		
Employee benefits – annual leave	1,241	1,356
Employee benefits – long service leave	1,416	1,648
	2,657	3,004
Non-current:		
Employee benefits – long service leave	237	321
Employee benefits – long term incentive	736	949
	973	1,270

15 Deferred Tax Liabilities

	Consolidated	
	2018 \$'000	2017 \$'000

The temporary differences are attributable to:

Doubtful debts	(95)	(69)
Employee benefits	(1,200)	(1,676)
Sales returns and volume rebates	(9)	(9)
Deferred revenue	(528)	(480)
Difference between book and tax value of non-current assets	8,976	9,819
Other provisions	(2,858)	(2,189)
	4,286	5,396

Details of unrecognised deferred tax assets can be found in Note 5(c)

Reconciliation:

Opening balance at 1 January	5,396	7,418
De-merger of Document Management Group	-	(1,000)
Charged / (credited) to profit or loss	(1,110)	(1,022)
Balance at 31 December	4,286	5,396

Notes to the Financial Statements (continued)

16 Parent Entity Disclosures

	Parent	
	2018 \$'000	2017 \$'000
Financial position		
Assets		
Current assets	7,082	8,709
Non-current assets	68,749	69,619
	<u>75,831</u>	<u>78,328</u>
Liabilities		
Current liabilities	8,993	8,385
Non-current liabilities	41,284	47,882
	<u>50,277</u>	<u>56,267</u>
Equity		
Share capital	19,712	19,459
Share buyback reserve	(42,018)	(42,018)
Swap hedging reserve	64	136
Share based payments reserve	169	396
Acquisition of non-controlling interest reserve	(1,657)	(1,657)
Foreign currency translation reserve	(438)	(438)
Retained earnings	49,722	46,183
	<u>25,554</u>	<u>22,061</u>
Financial performance		
Profit for the year from continuing operations	7,913	7,415
Profit for the year from discontinued operations	-	212
Other comprehensive income from continuing operations	(299)	(430)
Total comprehensive income	<u>7,614</u>	<u>7,197</u>
Capital commitments for the acquisition of property, plant and equipment		
Not longer than 1 year	<u>-</u>	<u>-</u>
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.

17 Employee Benefits

Long-term incentive plan

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

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

The share appreciation rights plan represents an alternative remuneration element (to offering performance shares) under which the board can invite relevant employees to apply for a right to receive a cash payment from the company equal to the amount (if any) by which the market price of the company's shares at the date of exercise of the right exceeds the market price of the company's shares at the date of grant of the right. The right may only be exercised if the share price at the end of the performance period is greater than at the beginning of the performance period. The performance criteria for the rights to vest are fixed by the board in the exercise of its discretion. At present these are the same as the TSR target set for performance shares to vest and the same sliding scale applies.

From the performance period 2016-2018 onwards the benchmark was changed. There are two performance criteria that must be met. The first is achievement of budgeted earnings per share growth (EPS) over the performance period. The second is a comparison of the company's total shareholder return over the performance period measured against the change in the S&P/ASX 300 Accumulation Index (iTSR) over the performance period. The criteria carry equal weighting, except for the first year in the performance period 2016-2018 of the performance period, where EPS is given 100% weighting to account for share price volatility attributable to speculation (in late 2015 and early 2016) rather than the fundamental behaviour of the company. Vesting against both criteria occurs on a sliding scale. In the case of EPS 75% of entitlements vest if the target EPS is achieved and 100% of entitlement will vest on achievement of 110% of target EPS, on a sliding scale capped at 100% of entitlement. In the case of iTSR 75% of entitlements vest if the target iTSR is achieved, 100% of entitlements will vest on achievement of 100% of target iTSR, and a pro rata vesting occurs between 100% and 110% of target iTSR capped at 110%.

No options were issued during the year (2017: Nil).

Nil (2017: 1,135,000) senior executive rights, nil (2017: nil) appreciation rights and nil (2017: nil) performance shares, were issued during the year. The expense recognised in 2018 for the rights/performance shares was \$186 thousand (2017: \$588 thousand).

Notes to the Financial Statements (continued)

17 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	
			2018	2017	2018	2017	2018	2017*
Jan'15	Dec'17	121,239	95,554	921	-	4,603	-	95,554
Jan'11	Dec'17	112,500	25,000	268	44,250	8,982	-	69,250
Jan'12	Dec'18	127,500	25,000	1,590	56,625	7,660	-	81,625
Jan'13	Dec'19	296,250	50,000	23,679	-	44,821	132,500	182,500
Jan'14	Dec'20	101,250	5,000	21,179	-	21,571	33,875	38,875
Jan'15	Dec'21	37,500	-	6,429	-	3,571	8,250	8,250

*Shares/rights granted have been adjusted to compensate for the Document Management Group de-merger.

184,119 shares have been acquired for future grants

17 Employee Benefits (continued)

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
			2018	2017	2018	2017	2018 2017
Jan'15	Dec'17	747,036	747,036	-	-	-	- 747,036

Senior Executive 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
			2018	2017	2018	2017	2018 2017*
Jan'16	Dec'18	1,087,500	443,750	170,417	-	183,333	358,500 802,250
Jan'17	Dec'19	1,135,000	443,750	288,333	-	65,417	397,000 840,750

*Shares/rights granted have been adjusted to compensate for the Document Management Group de-merger.

Short-term incentive plan

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

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

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

Notes to the Financial Statements (continued)

18 Issued Capital

	2018		2017	
	No.	\$'000	No.	\$'000
Fully Paid Ordinary Share Capital				
Balance at beginning of financial year	113,294,832	20,524	113,294,832	20,524
Dividend re-investment plan	-	-	-	-
Balance at end of financial year	113,294,832	20,524	113,294,832	20,524

Less Treasury shares

Balance at beginning of financial year	458,907	1,065	795,539	1,817
Shares purchased in current period	711	1	-	-
Lapsed shares utilised	-	-	3,327	-
Shares vested	(100,874)	(254)	(339,959)	(752)
Balance at end of financial year	358,744	812	458,907	1,065
Balance at end of financial year net of treasury shares	112,936,088	19,712	112,835,925	19,459

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.

During the year nil shares were bought back.

No options were exercised during the year.

The Group implemented a dividend re-investment plan in 2016.

19 Reserves

Nature and purpose of reserves

(a) Foreign currency translation reserve

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

(b) Swap hedging reserve

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

(c) Share buyback reserve

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

(d) Share-based payments reserve

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

(e) Acquisition of non-controlling interest reserve

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

20 Earnings per Share

	Consolidated	
	2018 cents	2017 cents
Basic earnings per share – continuing and discontinued operations	6.8	6.8
Diluted earnings per share – continuing and discontinued operations	6.8	6.6
Basic earnings per share – continuing operations	6.8	6.6
Diluted earnings per share – continuing operations	6.8	6.5
Weighted average number of ordinary shares used in the calculation of basic earnings per share	112,936,088	112,835,925
Weighted average number of ordinary shares and potential ordinary shares (in relation to employee performance shares) used in the calculation of diluted earnings per share	114,050,332	114,937,832

Earnings used in the calculation of earnings per share for continuing and discontinued operations is \$7,706 thousand (2017: \$7,628 thousand). Earnings used in the calculation of earnings per share for continuing operations is \$7,706 thousand (2017: \$7,470 thousand).

Notes to the Financial Statements (continued)

21 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2018 (2017: Nil).

22 Commitments for Expenditure

(a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2018 (2017: \$nil).

	Consolidated	
	2018 \$'000	2017 \$'000
(b) Lease Commitments		
Operating Leases		
Within 1 year	2,274	2,069
Later than 1 year and not longer than 5 years	8,044	9,286
Later than 5 years	1,947	2,082
	12,265	13,437

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.

23 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2018 %	2017 %
Parent Entity			
Reckon Limited	Australia		
Subsidiaries			
Reckon Australia Pty Limited	Australia	100	100
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Reckon Accountant Group Pty Limited	Australia	100	100
Reckon Accountant Group Limited	New Zealand	100	100
Reckon One Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
nQueue Pty Limited	Australia	100	100
nQueue Billback Limited	United Kingdom	100	100
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	100	100
Reckon Accounts Pte Limited	Singapore	100	100

All shares held are ordinary shares.

Notes to the Financial Statements (continued)

24 Notes to the Statement of Cash Flows

	Consolidated	
	2018 \$'000	2017 \$'000

(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)	2,579	1,958
Bank overdraft	(434)	-
	2,145	1,958

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

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

Profit after income tax	7,706	7,628
Depreciation and amortisation of non-current assets	18,030	20,275
Payment for capitalised development costs	(14,689)	(18,165)
Proceeds from New Zealand government development grant	410	1,003
Non-cash employee benefits expense – share based payment	27	480
Increase/(decrease) in current tax liability/asset	(196)	931
Increase/(decrease) in deferred tax balances	(252)	(743)
Unrealised foreign currency translation amount	(948)	248
(Increase)/decrease in assets net of acquisitions:		
Current receivables	2,907	(1,269)
Current inventories	(162)	(44)
Other current assets	(295)	30
Non-current receivables	(248)	73
Non-current other	81	(66)
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	(1,074)	(475)
Other current liabilities	(120)	(684)
Other non-current liabilities	(297)	429
Net cash inflow from operating activities	10,880	9,651

24 Notes to the Statement of Cash Flows (continued)

(c) Assets and liabilities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Note	Cash		Non-cash		Balance at 31 Dec 2018 \$'000
		Balance at 1 Jan 2018 \$'000	Financing cash flows (i) \$'000	De-merger of subsidiary \$'000	Fair value adjustment \$'000	
Borrowings	13	50,606	(6,044)	-	-	44,562
Interest rate swap fair value hedge or economically hedging financing liabilities	14	(136)	-	-	72	(64)
		50,470	(6,044)	-	72	44,498

(i) The cash flows from bank loans, and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows

	Note	Cash		Non-cash		Balance at 31 Dec 2017 \$'000
		Balance at 1 Jan 2017 \$'000	Financing cash flows (i) \$'000	De-merger of subsidiary \$'000	Fair value adjustment \$'000	
Borrowings	13	51,763	(992)	(165)	-	50,606
Interest rate swap fair value hedge or economically hedging financing liabilities	14	(133)	-	-	(3)	(136)
		51,630	(992)	(165)	(3)	50,470

(i) The cash flows from bank loans, and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.

Notes to the Financial Statements (continued)

25 Dividends – Ordinary Shares

	Consolidated	
	2018 \$'000	2017 \$'000
No interim dividend for the year ended 31 December 2017 was paid (2016: 2 cents) paid.	-	3,375
Dividend in specie arising from the de-merger of the Document Management Division effective 4 August 2017.	-	26,506
A fully franked interim dividend for the year ended 31 December 2018 of 3 cents (2017: nil) per share was paid on 4 September 2018.	3,386	-
	3,386	29,881
Franking credits available for subsequent financial years based on a tax rate of 30% (2017: 30%)	535	614

26 Financial Instruments

(a) 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, liquidity risk and cash flow interest rate risk.

(b) 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 \$2,579 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.78% (2017: 0.78%). Interest bearing borrowings by the consolidated entity at the reporting date were \$44,996 thousand (2017: \$50,606 thousand). Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Variable rate borrowings during the year attracted an average interest rate of 5.04% (2017: 5.09%) on overdraft facilities and 3.59% on loan facilities (2017: 3.11%). 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 \$212 thousand (2017: \$251 thousand).

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

The maturity profile for the consolidated entity's cash (\$2,579 thousand) that is exposed to interest rate risk is one year, and interest bearing borrowings (\$44,996 thousand) that are exposed to interest rate risk, and the interest rate swap is two years. On the assumption that interest bearing borrowings and variable interest rates remain at the current level, the annual interest costs are expected to be \$1.621 million.

Further details are set out in note 12.

26 Financial Instruments (continued)

c) Credit Risk

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

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

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

The average credit period on sale of goods is 45 days. Interest is generally not charged. The group has assessed the expected credit loss on receivables and have used a provision matrix to measure the Group's estimated impairment losses (refer note 1(y)).

(d) Foreign Currency Risk

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. 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.

(e) Liquidity

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

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.

Further details are set out in notes 12 and 13.

(f) Capital risk management

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

(h) Fair Value

The 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.

Notes to the Financial Statements (continued)

27 Related Party Disclosures

	Consolidated	
	2018 \$	2017 \$
(a) Key Management Personnel Remuneration		
Short term benefits	3,523,686	3,262,362
Post-employment benefits	106,864	157,560
Share based payments	(280,971)	606,271
	<u>3,349,579</u>	<u>4,026,193</u>

The names of and positions held by the key management are set out on page 14 of the Remuneration Report. Further details of the remuneration of key management are disclosed in the Remuneration Report.

(b) Other Transactions with Key Management Personnel

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

(c) Directors' and Key Management Equity Holdings

Refer to the table on page 36 and 37 of the Remuneration Report.

28 Subsequent Events

There has not been any matter or circumstance occurring subsequent to the financial year that has significantly affected, or may significantly affect the company's operations in future financial years; or the company's state of affairs in future financial years.

29 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 2, 100 Pacific Highway
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 19 March 2019.

Additional Information as at 8 March 2019 (Unaudited)

Corporate Governance Statement

The Reckon Limited Corporate Governance Statement is available on our website in the section titled Corporate Governance (<https://www.reckon.com/au/investors/governance/>).

Twenty Largest Holders of Quoted Equity Securities

Ordinary Shareholder	Number	Percentage
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	34,104,687	30.10
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	13,223,743	11.67
NATIONAL NOMINEES LIMITED	9,332,229	8.24
CITICORP NOMINEES PTY LIMITED	7,941,104	7.01
GREGORY JOHN WILKINSON	6,280,487	5.54
MR CLIVE RABIE + MRS KERRY ROSE RABIE <RABIE EXEC SUPER FUND A/C>	5,080,000	4.48
DJZ INVESTMENTS PTY LIMITED	4,690,000	4.14
RAWFORM PTY LTD <THE RECKON SOFTWARE S/F A/C>	1,330,306	1.17
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,061,718	0.94
MR STEPHEN JAMES RICKWOOD	1,022,048	0.90
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	900,862	0.80
BNP PARIBAS NOMS PTY LTD <DRP>	748,150	0.66
MR PHILIP ROSS HAYMAN	650,909	0.57
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	634,661	0.56
MR CLIVE ALAN RABIE	587,141	0.52
VANWARD INVESTMENTS LIMITED	576,082	0.51
HURSTCLAN HOLDINGS PTY LTD	500,000	0.44
MR GEORGE WALTER MOORATOFF	488,000	0.43
HAGGLUND FAMILY SUPER PTY LTD <HAGGLUND FAMILY S/F A/C>	461,693	0.41
WATERVIEW CUSTODIAN LIMITED	386,665	0.34
	90,000,485	79.43

Additional Information as at 8 March 2019 (Unaudited) (continued)

Number of Holders of Equity Securities

Ordinary Share Capital

113,294,832 fully paid ordinary shares are held by 3,162 individual shareholders as at 8 March 2019. 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 473.

Distribution of Holders of Equity Securities

As at 8 March 2019

Number of Ordinary Shares	Number of Shareholders
1 - 1,000	845
1,001 - 5,000	1,411
5,001 - 10,000	436
10,001 - 100,000	425
100,001 and over	45
Total	3,162

Substantial Shareholders

As at 8 March 2019

(a) From Twenty Largest holders of Quoted Equity Securities

Ordinary Shareholder	Number	Percentage
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	34,104,687	30.10
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	13,223,743	11.67
CLIVE ALAN RABIE	10,597,141	9.35
NATIONAL NOMINEES LIMITED	9,332,229	8.24
GREGORY JOHN WILKINSON	8,019,374	7.08
CITICORP NOMINEES PTY LIMITED	7,941,104	7.01

(b) As disclosed to ASX

	Ordinary Shares	Percentage
Wilson Asset Management Group	16,088,278	14.20
FMR LLC	10,763,572	9.50
Spheria Asset Management Pty Limited	8,896,535	7.85
Australian Ethical Investment Limited	7,140,547	6.30
Microequities Asset Management Pty Ltd	7,109,292	6.28

Principal Registered Office

Level 2, 100 Pacific Highway
North Sydney NSW 2060
Tel: (02) 9134 3300
www.reckon.com

Principal Administration Office

Level 2, 100 Pacific Highway
North Sydney NSW 2060
Tel: (02) 9134 3300

Share Registry

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

Stock Exchange Listings

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

Auditors

Deloitte Touche Tohmatsu
225 George Street
Sydney NSW 2000

Company Secretary

Mr Myron Zlotnick

Annual General Meeting

The Annual General Meeting for Reckon Limited will be held on **Wednesday 22 May 2019 at 10:00am** at **Level 2, 100 Pacific Highway, 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

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

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

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

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

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

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

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