2012 Annual Report

Reckon™

2012 | Annual Report

Reckon Limited Annual Report

ABN 14 003 348 730

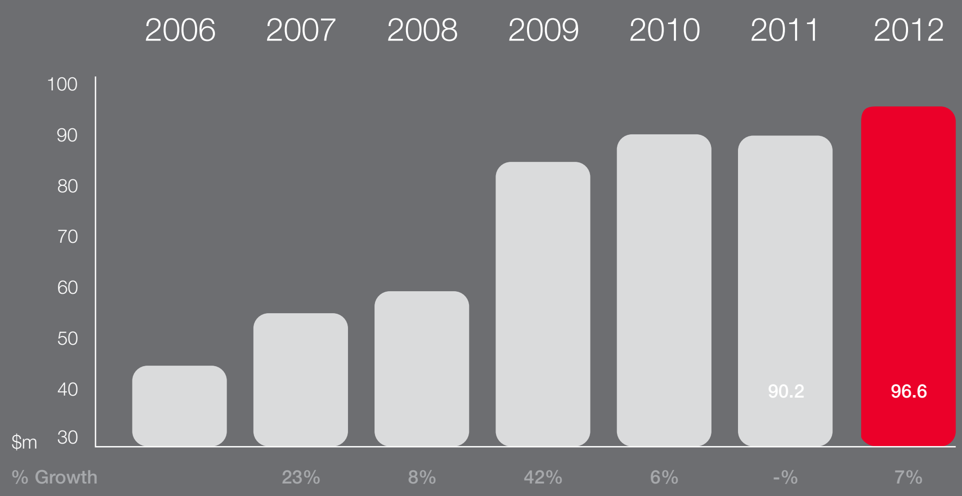
for the Financial Year Ended 31 December 2012

Contents

Our Results at a Glance

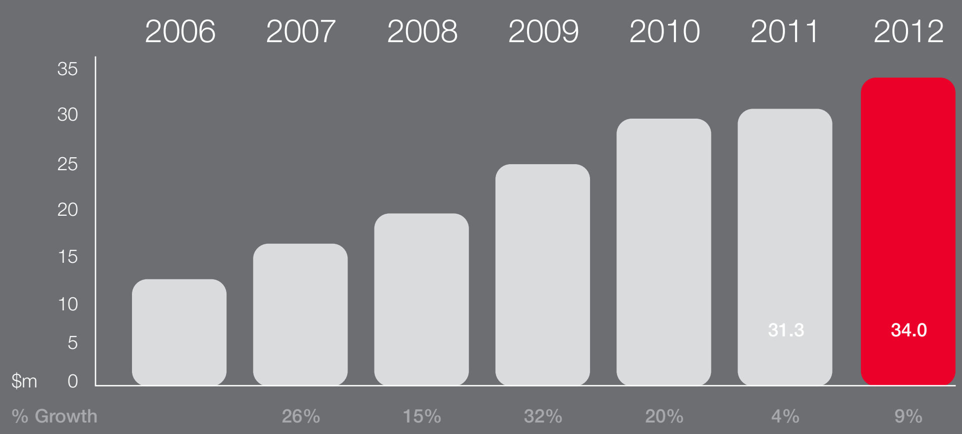
Operating Revenue

Operating revenue was up 7% to $96.6 million from $90.2 million.



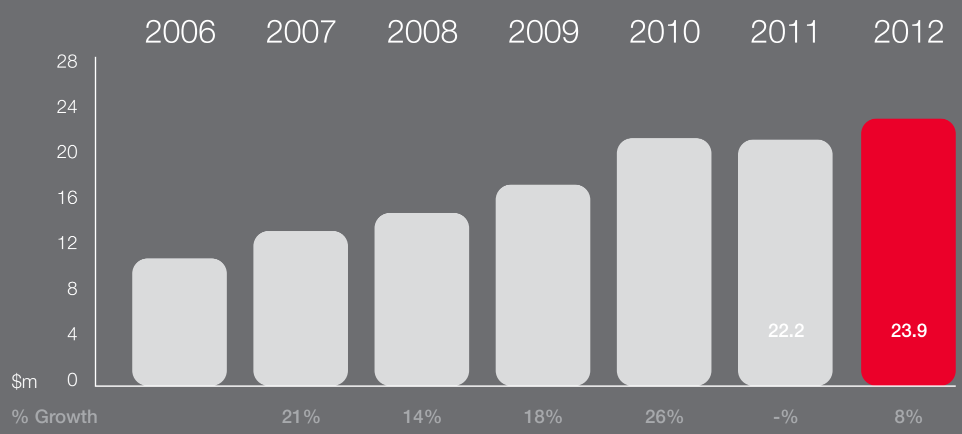
EBITDA

Group EBITDA was up 9% to $34 million from $31.3 million.



NPBT

Group NPBT was up 8% to $23.9 million from $22.2 million.



Message to Shareholders from the Chairman and Group CEO

Overview

2012 marked an important year in the evolution of Reckon Limited.

The growing diversity of our business and depth of our product suite has driven us to realign all our products under a single Reckon brand name. Consequently, we have commenced implementing significant changes to elevate awareness of the Reckon brand name and re-position our products in the market.

Our market comprises micro to larger sized businesses covering most industries, accountancy practices ranging in size from sole practitioners to the Big 4, bookkeepers, tax agents, and legal practices in multiple countries.

We are unique in our markets, offering our solutions as either desktop, hosted or cloud and provide our clients with options that suit them best.

We have also made organisational changes to ensure we have the development skills, energy and skilled talent for our desktop, hosted and cloud solutions. Reckon is thus well positioned to meet the specific needs of our broad range of customers and partners.

We have achieved a lot in terms of integrating our operations and products across our key businesses.

The financial performance for the company in 2012 was once again very good and builds on the momentum over previous years to position us well in 2013 and beyond.

Key Performance Metrics

	2012	2011	% Change	Amount Change
Revenue	$96.8 million	$90.7 million	7% increase	$6.1 million
EBITDA	$34.0 million	$31.3 million	9% increase	$2.7 million
NPAT	$17.8 million	$16.7 million	6% increase	$1.1million
EPS	13.4 cents per share	12.1 cents per share	11% increase	1.3 cents per share

Dividend

On 5 February 2013, the Board declared a final dividend of 4.75 cents per share (4.5 cents per share in 2011). The dividend was 90% franked. The interim dividend announced on 7 August 2012 was 3.75 cents per share, also franked to 90%.

Message to Shareholders from the Chairman and Group CEO continued

Divisional Performance

	Operating Revenue	% change on 2011 Revenue	EBITDA	% change on 2011 EBITDA
Business division	$58.3 million	+ 4%	$21.3 million	+ 4%
Professional division	$25.1 million	+ 8%	$12.4 million	+ 16%
nQueue Billback division	$10.8 million	- 3%	$4.6 million	-9%
Virtual Cabinet division	$2.4 million	n/a	$0.5 million	n/a

Business Division

Revenue growth in the Business division was 4%, the result was however mixed. Despite the division being impacted by a declining retail channel, there were encouraging growth signs in the non-retail channels. Direct revenue grew by 8%, based on 18% unit sales growth offset by a net price/mix reduction of 10%. Revenue from hosted products grew by 67%; and revenue from enterprise products grew by 16%. The negative impact of the retail channel and the price/mix is expected to reduce over time. The Reckon Docs business grew revenue by a significant 17%. We plan to continue focussing on our direct sales effort to professional accountancy firms which contributed to market share growth in 2012. The establishment and growth of a direct sales team especially for online/hosted products, enterprise products and Reckon Docs has had a positive impact on the Business division.

From March 2014 we will no longer be paying any royalties to Intuit Inc. This is the outcome of the re-negotiation of our licensing agreement with Intuit Inc. We have also secured a 100 year licence to the latest version of the Intuit source code for QuickBooks and Quicken products from Intuit Inc. As a result we are changing the QuickBooks and Quicken product names. This has already been done for Quicken, which is now known as the Reckon Accounts personal range, and QuickBooks products will be renamed the Reckon Accounts business range from April 2013.

On top of the reliability and growth of our existing products in the Business division, we are particularly excited about the impending launch of our cloud accounting solution, Reckon One, planned for the second quarter of 2013. The new solution has been developed with a “designed by you” philosophy, aimed at meeting the specific needs of the customer with a cost-effective outcome. This product will be highly scalable and transportable.

Professional Division

The Professional division (APS product range) strengthened its position as supplier of choice to top professional accountancy firms. The division achieved strong results in Australia and New Zealand and overall revenue grew 8%. Through the continued acquisition of new clients the division has grown market share. APS is now pursuing a stepped up product roll out targeted to increase the average number of modules used by the existing customer base. Newer modules that are expected to help achieve this strategy include Company Secretarial, Workpaper Management and Virtual Cabinet document management.

As with the Business division, the Professional division is expanding its addressable market through APS Private Cloud which allows accounting practices to access all their software products (not just APS products) as a hosted solution, providing our clients with improved efficiency opportunities and tremendous cost savings.

Effective from 31 December 2012 the APS UK business was sold to the previous managing director. Reckon continues to own the intellectual property in the APS technology and will receive an ongoing revenue stream from royalties on sales under the new licensing agreement. There is not expected to be any material change to the profit generated under the new arrangements.

nQueue Billback Division

Reckon's nQueue Billback business experienced strong growth in the United Kingdom and continues to add new clients in the USA. We have moved management control over our Australian legal business to the nQueue Billback management team, and anticipate that their domain expertise will positively impact on future results for this business. We also consolidated our shareholding in this business by acquiring the minority shareholdings effective at 31 July 2012.

Virtual Cabinet Division

The Virtual Cabinet business which develops and distributes document management and document portal technology was acquired in July 2012. This is an exciting addition to our product suite. So far it has performed according to expectations. We now have the opportunity to continue growth in its traditional United Kingdom markets, as well in Australia, New Zealand and potentially also in the USA.

Focus

In the Business division we aim to build on our customer growth successes in past years. We will also enjoy the benefit of the profit uplift from no longer paying royalties to Intuit from 2014 onwards. This year we will launch Reckon One, our new cloud accounting solution, and we will look to expand this product beyond our traditional markets. We are well underway in rebranding the business and re-naming the products. QuickBooks will be renamed Reckon Accounts in April 2013. We aim to continue growing sales by building out our direct sales force.

In the APS business we see incremental revenue opportunities from APS Private Cloud and Virtual Cabinet.

nQueue Billback's focus remains on expanding our existing customer base and evaluating Virtual Cabinet's opportunities in their market.

For Virtual Cabinet there is focus on long term sales targets in the United Kingdom and expanding the market to include Australia and New Zealand and re-sellers in other parts of the world.

The business as a whole has been very successful since its listing in July 1999 and we have consistently delivered according to our strategies, and developed and adapted over time.

Also, we have built businesses based on our strong relationships with SMEs, accountants, lawyers, and our network of partners to deliver solutions designed to meet the specific needs of our customers.

On top of that we offer high quality technology and domain expertise across the diverse areas that we service.

Reckon's financial strength and proven track record gives our customers and partners confidence that we can continue to lead the market in delivering innovative and high quality products and solutions now and into the future.

We would like to acknowledge the continued support of our network of partners that include accountants and bookkeepers, as well as business and IT consultants, from across Australia and New Zealand. We also thank Reckon staff, our customers, our suppliers and fellow directors for their contribution in 2012, and look forward to working with them this year.

John Thame
Chairman

Clive Rabie
Group CEO

Directors' Report

The Directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2012

Board of Directors

The Directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2012.

John Thame AAIBF FCPA

Non-Executive Chairman

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

Ian Ferrier FCA

Non-Executive Director

Ian Ferrier is a Fellow of the Institute of Chartered Accountants in Australia. He has extensive experience in company corporate recovery and turnaround practice. He is also a Director of a number of private and public companies. Ian was appointed Chairman of InvoCare Limited in 2001. Ian is also Chairman of Australian Vintage Limited having been a Director since 1991 and Chairman of Goodman Group Limited since 2003 and a Director of Energy One Limited. He has significant experience in property and development, tourism, manufacturing, retail, hospitality and hotels, infrastructure and aviation and service industries. Ian joined the Board on 17 August 2004.

Greg Wilkinson

Deputy Non-Executive Chairman

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

Clive Rabie

Group Chief Executive Officer

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

Myron Zlotnick LLM, GCertAppFin

General Counsel and Company Secretary

Myron Zlotnick has over 20 years experience as a legal practitioner, general and corporate counsel, and as a Director of companies in the information, communications and technology sector. Myron also assumes responsibility for some aspects of the management and operations of the Reckon Docs and nQueue Billback businesses. He is also a member of the Business Advisory Committee of ASIC's "Real Economy".

Marianne Kopeinig LLM, GDipApplCorpGov

Legal Counsel and Assistant Company Secretary

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

Principal Activities

Reckon Limited conducts business predominantly across four areas:

(1) the sales and support of small to larger sized business accounting software and personal wealth management software under the Reckon Accounts business range and Reckon Accounts personal range brands; the sales and support of company secretarial services such as company incorporations, SMSF documentation and ASIC compliance management under the Reckon Docs brand,

(2) the sales and support of accounting practice management and allied software under the APS brand to larger professional accounting firms, and to smaller professional accounting firms under the Elite brand;

(3) supplying software solutions to legal firms and corporations in the main areas of revenue management, expense management, print solutions, business process automation, business intelligence, document service automation, and document management under the nQueue Billback brand; and

(4) sales and support of document management and document portal products to a wide variety of clients under the Virtual Cabinet brand.

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

Business division

In the Business division, under the QuickBooks brand range (which will be known as the Reckon Accounts business range from April 2013), and Reckon Accounts personal brand range (previously known as Quicken), Reckon develops, localises, distributes and provides after sales technical support for the accounting software needs of small to medium sized and enterprise businesses as well as in the personal finance and wealth management sector. In addition, Reckon independently develops and distributes a payroll and point of sale solution. Reckon also develops applications that enhance these products, for example: electronic data interchange ("EDI") functionality, bill payment solutions, super choice management solutions, on-line backup, and on-line trading.

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

Overall Reckon is developing its range of products which bring together all its traditional and new applications, whether on a desktop, hosted, or in the cloud, in a single environment where they integrate to improve collaboration between businesses, accountants, banks, government agencies and other stakeholders. To this end, Reckon also independently develops, sells and supports:

(1) QuickBooks Hosted (will be named Reckon Accounts Hosted in April 2013). This offers end users and accountants a convenient secure online product that is accessible from anywhere that very closely mimics the Reckon Accounts business range desktop package;

(2) CashBook Online, a simple cloud-based product that links to banks;

(3) Reckon BankData which allows connections with banks and other financial institutions to permit customers to directly download bank statement data into CashBook Online;

(4) Reckon GovConnect which delivers and lodges relevant reports from QuickBooks (to be renamed Reckon Accounts), seamlessly to government agencies such as the ATO; and

(5) an online version of Reckon's POS product which will be made available at the end of April 2013.

In the second quarter of 2013 Reckon will launch Reckon One, a more versatile and flexible cloud accounting solution for small businesses. The program will be modular based on the concept "designed by you" allowing users to tailor the solution to their needs wherever they are "anytime, anywhere", unlike other offerings which are 'one size fits all'.

The Reckon Elite business develops and distributes tax return preparation tools, practice management tools and related solutions for accountants and tax agents in public practice, with some recent sales in other markets. Reckon Elite focuses on sales to smaller accounting firms compared to APS, in the Professional division, which focuses on the larger firms. An online version of Reckon Elite will soon be made available as part of the company's overall strategy to offer integrated online solutions for small business owners and accountants.

The Reckon Docs 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 hours a day, seven days a week; 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.

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

Professional division

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

Together the Professional and Business divisions co-ordinate development to meet the Group's overall strategy of delivering integrated solutions, on the desktop, in a hosted environment, and in the cloud, to businesses and accountants.

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

Reckon through APS, has committed several years of research and development to delivering unique integrated practice software to work off a single platform, offering all its solutions under the collective "Advance" suite.

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

nQueue Billback division

The nQueue Billback division provides software and support services in the revenue management, expense management, print solutions, document service automation, and document management markets. It currently operates in Australia, the United Kingdom and the USA, and has reseller arrangements in other parts of the world.

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

Virtual Cabinet division

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

Review of Operations

Reckon's financial performance can be summarised as follows:

- Revenue was up 7% to $96.8 million from $90.7 million.
- Group EBITDA was up 9% to $34.0 million from $31.3 million.
- Group NPAT was up 6% to $17.8 million from $16.7 million.
- Basic EPS was up 11% to 13.4 cents per share from 12.1 cents per share.
- Final dividend of 4.75 cents per share and an interim dividend of 3.75 cents (a total of 8.5 cents), compared to a total dividend of 8 cents in 2011 – 90% franked.
- The Group had $9.1 million net debt at 31 December 2012 arising out of acquisitions during the year.

For 2012, direct revenue in the Business division continued to trend upwards, growing by 8%, with strong performances in sales of enterprise versions of QuickBooks (soon to be named Reckon Accounts business range in April 2013) and QuickBooks Hosted (soon to be named Reckon Accounts Hosted in April 2013). The division was again however impacted by a weak retail channel in 2012. Hosted products revenue grew 67% while enterprise products revenue grew 16%. Both these products are expected to contribute to future growth. Reckon Docs products grew by a significant 17%.

The Professional division had a particularly good result in Australia and New Zealand for the year, with revenue growing by 8%. In the APS business, incremental revenue opportunities are present from APS Private Cloud and Virtual Cabinet Document Management.

The nQueue Billback business displayed strong growth in the United Kingdom and continued to add new clients in the USA. Reckon also consolidated its shareholding in this business by acquiring the minority shareholders effective at the end of July 2012. nQueue Billback has refreshed its product so as to present a cross selling opportunity in its existing customer base/markets and plans to investigate the feasibility of selling document management in the wider USA market.

On 1 July 2012 Reckon acquired an initial interest in Linden House Software Limited (Virtual Cabinet) for $9.2 million with an option to acquire 100% based upon the performance of the business over the next 3 years. The Virtual Cabinet business has performed according to expectations in the first 6 months. For Virtual Cabinet there is focus on long term sales targets and expanding the market to include Australia, New Zealand and other parts of the world.

Effective 31 July 2012 Reckon acquired the outstanding minority investments in the nQueue Billback companies in the United Kingdom (25%) and the United States (26%) for $4.5 million.

On 11 April 2012 Reckon acquired a strategic minority investment in Connect2Field Holdings Pty Ltd for $0.7 million. This company develops, sells and supports field job management and scheduling software with integration into the Reckon Accounts business range of products.

Effective from 31 December 2012 the APS UK business was sold to the previous managing director. Reckon will receive an ongoing revenue stream from royalties on sales under a licensing agreement. There is not expected to be any material change to the profit generated under the new arrangement.

While Reckon continues to pursue its strategy of including web hosting, domain name re-sales, e-commerce enablement and allied services as part of its offering to small businesses, it decided to dispose of its strategic equity investment in Melbourne IT Limited. So, commencing on 22 February 2012 and ending on 30 March 2012, Reckon sold its minority interest (less than 5%) in Melbourne IT Limited. The company sold 4,000,897 shares for $6.4 million.

On 22 March 2012, Reckon announced that as a consequence of the gradual divergence of the respective online ambitions of Reckon and Intuit Inc, they have entered a notice period ending on 10 February 2014, when Reckon's licensing agreement with Intuit will be formally terminated. An important impact of this is that from March 2014 Reckon will no longer be required to pay a royalty to Intuit on sales of the Reckon Accounts business and personal product ranges. Reckon will still continue to have access to the then latest version of the source code for these products to continue selling and to independently develop the desktop and hosted technology for a 100 year period. Reckon has already commenced a product re-naming exercise with Reckon Accounts personal range (formerly known as Quicken range), and QuickBooks will be renamed Reckon Accounts business range from April 2013.

The combination of businesses, development roadmaps and marketing strategies means Reckon now occupies a unique position in the market. The company will be in the position of being able to supply desktop, hosted and cloud solutions across its suite of solutions for all clients.

Reckon is aiming to supply products right for the customer not just in software design but also to ensure the platform is suited best to the customer.

Also, the businesses are based on strong relationships with SMEs, professional accountants, lawyers and a network of partners to deliver solutions designed to meet the specific needs of the markets into which the company sells.

Buyback 2012

Pursuant to the announcement of a share buy-back on 7 August 2012, 3.4 million shares were purchased at an average price of $2.27 per share during 2012.

Dividends

On 5 February 2013, the Board declared a final dividend of 4.75 cents per share (90% franked) payable to shareholders recorded on the company's register as at the record date of 15 February 2013. Reckon does not have a dividend re-investment plan currently in operation. On 7 August 2012, the Board declared an interim dividend of 3.75 cents per share (90% franked) payable to shareholders recorded on the company's register at record date of 22 August 2012.

Significant Changes in State of Affairs

There were no significant changes in state of affairs.

Matters Subsequent to the End of the Financial Year

On 5 February 2013 Reckon announced a buy-back of shares which permits the company to buy back up to 10% of its shares on the open market. As at 8 March 2013, zero shares have been bought back. It is anticipated to keep the buy back in place until 4 February 2014 subject to the normal ASIC requirements.

Other Matters

Other than as disclosed in this Directors' Report no other matter or circumstance has arisen since 31 December 2012 that has significantly affected, or may significantly affect:

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

Future Developments

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

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

Key to future plans is the development philosophy to design by the user, so that the user is able to decide how much of the product is applicable to its business and consequently need only pay for what it needs and thereby achieve a cost effective outcome.

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

Directors' Shareholdings

As at the date of this report, the Directors held shares and options in Reckon as set out in Note 28 to the financial statements.

Remuneration Report

(Audited)

Key Management

The key management personnel include the directors and those people who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity. Key management personnel details are set out on page 18 below.

Policy for Determining Remuneration of Key Management Personnel

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

The Policy for determining remuneration of other management personnel has been delegated to the Group CEO, Group CFO and Divisional CEOs by the Board to be exercised in accordance with the same broad principles as apply for the Group CEO, Group CFO, other company officers and Divisional CEOs.

The Board reviews all remuneration in its consideration of the Company's annual budget process. The Board, through the remuneration committee will consider for approval the levels of remuneration set in the annual budgeted, taking into account the relevant performance budgeted as well as compared with historical performance.

The policy is to pay the relevant officers and employees' remuneration consistent with applicable market comparisons suited to the unique features of the company, the competitive landscape, the scale of the business, the responsibilities of the individual directors and employees, internal relativities and performance.

The Board is conscious of the need to attract and retain talent. The remuneration policy takes account of striking the right balance between short term benefits and long term incentives. All remuneration is reviewed annually. Generally increases, if justified, will not exceed comparable market increases.

Terms of Employment for Key Management Personnel

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

For 2012, remuneration for key management personnel including the Group CEO, Group CFO, other company officers, Divisional CEOs, and other senior executives, comprises a fixed element, a short-term incentive element and a long-term incentive element.

Fixed Component

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

Short-Term Incentive Payments

The short-term incentive component of remuneration is dependent on satisfaction of performance conditions. Each annual budget fixes a pool representing the total potential amount in which the relevant employees can share if the performance conditions are met. There are three weighted elements to the performance conditions, viz: a revenue target, an earnings before interest, tax, depreciation and amortisation (EBITDA) target, and earnings per share (EPS) target measured against the budgeted performance of the Company.

The Board retains a discretion regarding the allocation of the pool between employees as well as regarding weightings.

Short term incentives are paid in cash as bonuses usually in about February or March of the following year.

The amounts paid include a portion effectively requiring the employee to remain employed for further one year before being paid the remaining short term bonus for performance in that year.

Long-Term Incentive Payments

The long-term incentive component is the last of the mix of the components comprising remuneration packages. It is aimed at retaining the long term services of the key management personnel to whom it applies and to align their remuneration with the longer term performance of the Company. The substance of the long-term incentive component for key management was approved by Special General Meeting on 20 December 2005.

In general terms, the long-term incentive component comprises several possible methods of participation: an option plan, a performance share plan (which includes a long term retention incentive) and a share appreciation plan. The Board has discretion to approve the making of offers to applicable employees to participate in any of these plans. Options granted and/or performance shares awarded (all in respect of the Company's ordinary shares) and/or share appreciation rights do not vest before three years after their grant date or at least seven years in the case of the long term retention incentive. Vesting is also conditional upon the Company achieving defined performance criteria. The performance criteria for all plans except for the long term retention incentive are based upon a total shareholder return (TSR) target. A TSR is the return to shareholders over a prescribed period, based upon the growth in the Company's share price plus dividends or returns of capital for that period. The Company's initial TSR target will be the Company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the Board) over the same period. The mechanism and detailed criteria to achieve the Board's objectives was designed by an independent consultant and offers were made under the rules of the company's original performance share plan approved by shareholders at the Special General Meeting on 20 December 2005.

The Board will review the suitability of the comparator group on an ongoing basis. Some of the entities comprising the comparator group have been delisted either as part of merger and acquisition activity or for other reasons. This was factored into the calculation of the Company's performance by the independent valuers who undertook the exercise on behalf of the Company. Where companies were de-listed or suspended, for example, it was assumed that the Company out-performed that company. The comparator group of companies used in the performance period for assessment included (1) Adacel Technologies Limited, (2) Firstfolio Limited (previously listed as AFS), (3) Altium Limited, (4) Amcom Telecommunications Limited, (5) ASG Group Limited, (6) CPT Global Limited, (7) Eftel Limited, (8) Eservglobal Limited, (9) Hansen Technologies Limited, (10) Infomedia Ltd, (11) Integrated Research

Limited, (12) Melbourne IT Limited, (13) Lifestyle Communities Limited (previously listed as NMB), (14) MYOB Limited (no longer listed), (15) Newsat Limited (suspended from trading), (16) Objective Corporation Limited, (17) Oakton Limited, (18) Powerlan Limited, (19) Queste Communications Limited, (20) Rea Group Ltd, (21) Sirius Corporation Limited, (22) Sonnet Corporation Limited (no longer listed), (23) Asian Pacific Limited (previously listed as TMO, no longer listed), (24) Technology One Limited, (25) Talent2 International Limited (no longer listed), (26) Chariot Limited (no longer listed), (27) Citect Corporation Limited (no longer listed).

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

The share appreciation right plan represents an alternative remuneration component (to offering options or performance shares) under which the Board can invite relevant employees to apply for a right to receive a cash payment from the Company equal to the amount (if any) by which the market price of the Company's shares at the date of exercise of the right exceeds the market price of the Company's shares at the date of grant of the right. The right may only be exercised if performance criteria are met. The performance criteria are fixed by the Board in the exercise of its discretion. At present these are the same as the TSR target set for the right to exercise options or for performance shares to vest.

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

The genesis of the idea to extend the plan and offer additional performance shares was to provide a reward and an incentive for senior level employees who have a long employment history and good performance record.

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

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

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

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

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

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

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

Offers made are staggered in such a way that for 100% of the shares to vest, the employee must remain in employment for 10 years from the date of the initial offer, with a minimum of 7 years.

In the context of the overall remuneration strategy of the company, the history of the performance of the company, and the relative value of the shares offered, the remuneration committee is of the view that the addition of this incentive to remuneration offered is appropriate and 'fair and reasonable', a view supported by the independent consultant.

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

Balance Between Salary, Short-Term and Long-Term Incentives

It is the Board's opinion that an adequate balance is struck between the three components comprising the relevant remuneration. For short term incentives, the performance targets reflect, in part, the key factors that the Company pursues in measuring its performance: volume of sales; earnings generated; and value returned to shareholders in terms of EPS. The targets also represent a measure of an incentive to encourage commitment to the business and to its growth. The audited financial results for the year are used to assess whether the performance conditions are satisfied. Audited results represent an independent accurate method of determining the attainment of the conditions. For long-term incentives, the additional targets comprising TSR reflect a further assessment of value to shareholders before the remuneration is earned. As stated above the comparator group might be subject to review.

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

	NPAT	EPS	Dividend	Change in share price between beginning and end of year	
				Beginning of January	End of December
	$'000	(cents per shares)		(cents)	
2008	11,312	8.5	6.0	139	105
2009	13,602	9.9	7.0	105	184
2010	17,248	12.4	8.0	184	234
2011	16,693	12.1	8.0	234	234
2012	17,767	13.4	8.5	234	236

Total shareholder return for the period 2010 to 2012 was 54%. For the same period the index return for the ASX All Ordinaries was negative 4.5% and the index return for the S&P/ASX 200 was 9.3%.

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

Directors' Report continued

Remuneration Report continued

(Audited)

Remuneration 2012	Office	Fixed component	Short term incentive component		Other compensation	Long term incentive component		
						Equity settled share based payments	Cash settled share based payments	
		Salary	Bonus[1]	Other short term benefits	Superannuation	Performance shares[2]	Appreciation rights[3]	Total remuneration
Directors[5]								
John Thame	Chairman, Non-executive Director	$105,000	$0	$0	$9,450	$0	$0	$114,450
Greg Wilkinson	Deputy Chairman, Non-executive Director	$90,000	$0	$0	$8,100	$0	$0	$98,100
Clive Rabie	Group CEO, Executive Director	$614,500	$241,137	$0	$39,500	$0	$105,560	$1,000,697
Ian Ferrier	Non-executive Director	$90,000	$0	$0	$8,100	$0	$0	$98,100
Executives[5]								
Sam Allert[6]	CEO, Professional Division	$313,540	$74,723	$13,243	$26,540	$23,551	$0	$451,597
Chris Hagglund	CFO	$371,537	$111,176	$0	$29,037	$73,854	$0	$585,604
Myron Zlotnick	General Counsel & Company Secretary	$303,090	$74,145	$0	$26,090	$52,968	$0	$456,293
Brian Coventry[4]	CEO, Professional Division	$332,368	$74,723	$0	$29,487	$0	$0	$436,578
Gavin Dixon[7]	CEO, Business Division	$413,860	$116,204	$0	$30,860	$19,739	$0	$580,663
Richard Hellers	President and CEO, nQueue Billback division	$253,378	$48,263	$12,844	$13,328	$0	$0	$327,813
TOTAL		$2,887,273	$740,371	$26,087	$220,492	$170,112	$105,560	$4,149,895

1. The potential amounts payable for the short term cash performance bonuses are determined at the beginning of the year and are earned based upon the performance criteria for the year. The amounts paid include a portion for 2011 effectively requiring the employee to remain employed for a further one year period to 31 December 2012 before being paid the remaining short term bonus for performance in 2011. The short term bonus for Mr Hellers is based on specific performance targets for the nQueue Billback division.
2. The dollar values of the long term incentive and retention component is the fair value using a model that adapts the Monte Carlo simulation approach: (1) allocated over each year of the 3 year performance period for 2010 to 2012 and (2) allocated over the 7 year period from 2012 to 2018 for shares offered as a long term retention incentive. The fair value of the performance shares offered in 2012 for the performance period 2012 to 2014 at grant date was $1.785 per share valued according to the Monte Carlo simulation approach. The fair value of the shares offered in 2012 for the long term retention incentive for the period 2012 to 2018 at 1 January 2012 was $1.772 per share valued according to the Monte Carlo simulation approach. For the performance period 2012 to 2014 performance shares were offered as follows: Mr Hagglund (33,226 shares), Mr Zlotnick (21,787 shares), Mr Allert (10,894 shares), Mr Coventry, (10,894 shares) and Mr Dixon (37,039 shares). The date of grant for each of these participants was 1 January 2012. If the performance criteria are met, then the shares are released at no consideration on 31 December 2014. For the long term retention incentive period 2012 to 2018 performance shares were offered as follows: Mr Hagglund (25,000 shares), Mr Zlotnick (25,000 shares), Mr Allert (12,500 shares) and Mr Coventry (12,500 shares). These shares vest on 31 December 2018 at zero cents subject to the employees remaining in employment for the period. The fair value of performance shares which vested or were forfeited during the 2012 financial year is set out in the table below. No options were granted to any person during the year as part of their remuneration. No options vested during the financial year. All options issued in previous years were fully vested in prior years. No options were exercised during 2012.
3. The dollar value of the share appreciation incentive in the above table is determined using a model that adapts the Monte Carlo simulation approach allocated over each year of the 3 year performance period for 2010 to 2012. The fair value of the rights offered for the performance period 2012 to 2014 was $0.441 valued according to the Monte Carlo simulation approach. 396,825 rights were issued under the plan on 1 January 2012 for the performance period 2012 to 2014. The fair value of appreciation rights which vested or were forfeited during the 2012 financial year is set out in the table below. For the share appreciation plan, the amount ultimately paid to the employee is calculated based on the difference between the company share price at vesting and the share price at date of issue spread over the three year performance period, multiplied by the number of rights granted.
4. Employment ended on 31 December 2012. No termination benefit paid.
5. To the extent that any of the above are directors of any wholly owned subsidiaries of the Company no additional remuneration is paid.
6. Promoted to the position on 1 October 2012. This represents remuneration for 12 months.
7. Resigned effective from 31 March 2013.

Remuneration 2012 continued	Percentage of total remuneration that is performance related	Percentage of available bonus which vested in the year	Percentage of available bonus which was forfeited during the year	No of Performance shares vested in 2012	Value of Performance shares vested in 2012	Value of Performance shares forfeited in 2012	Value of Appreciation rights vested in 2012	Value of Appreciation forfeited in 2012
Directors								
John Thame	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greg Wilkinson	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Clive Rabie	35%	88%	12%	n/a	n/a	n/a	$185,557	$0
Ian Ferrier	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Executives								
Sam Allert	25%	88%	12%	7,568	$13,086	$0	n/a	n/a
Chris Hagglund	32%	88%	12%	41,216	$71,266	$0	n/a	n/a
Myron Zlotnick	28%	88%	12%	27,027	$46,732	$0	n/a	n/a
Brian Coventry	17%	88%	12%	12,573	$38,482	$72,224	n/a	n/a
Gavin Dixon	23%	88%	12%	39,514	$68,323	$89,039	n/a	n/a
Richard Hellers	15%	60%	40%	n/a	n/a	$0	n/a	n/a
TOTAL				127,898	$237,889	$161,263	$185,557	$0

Options and shareholding for directors and relevant employees can be found at Note 28 to the financial statements.

Directors' Report continued

Remuneration Report continued

(Audited)

Remuneration 2011	Office	Fixed component: Salary	Short term incentive component: Bonus[1]	Short term incentive component: Other short term benefits[2]	Other compen-sation: Super-annuation	Long term incentive component: Equity settled share based payments Performance shares[3 8]	Long term incentive component: Cash settled share based payments Appreciation rights[4 6]	Total remuneration
Directors[7]								
John Thame	Chairman, Non-executive Director	$100,000	$0	$0	$9,000	$0	$0	$109,000
Greg Wilkinson	Deputy Chairman, Non-executive Director	$85,000	$0	$0	$7,650	$0	$0	$92,650
Clive Rabie	Group CEO, Executive Director	$575,000	$206,052	$0	$51,750	$0	$338,360	$1,171,162
Ian Ferrier	Non-executive Director	$85,000	$0	$0	$7,650	$0	$0	$92,650
Executives[7]								
Brian Armstrong[5]	CEO, Professional Division	$370,000	$114,751	$0	$33,300	$44,911	$0	$562,962
Chris Hagglund	CFO	$350,000	$92,050	$0	$31,500	$74,488	$0	$548,038
Myron Zlotnick	General Counsel & Company Secretary	$288,000	$61,367	$0	$25,920	$51,206	$0	$426,493
Brian Coventry	CEO, Professional Division	$321,000	$74,837	$0	$12,308	$18,813	$0	$426,958
Gavin Dixon[8]	CEO, Business Division	$388,500	$99,783	$0	$34,965	$75,392	$0	$598,640
Richard Hellers	President and CEO, nQueue Billback division	$228,967	$72,604	$9,970	9,197	$0	$0	$320,738
TOTAL		$2,791,467	$721,444	$9,970	$223,240	$264,810	$338,360	$4,349,291

1. The potential amounts payable for the short term cash performance bonuses are determined at the beginning of the year and are earned based upon the performance criteria for the year. The amounts paid include a portion for 2010 effectively requiring the employee to remain employed for a further one year period to 31 December 2011 before being paid the remaining short term bonus for performance in 2010. The short term bonus for Mr Hellers is based on specific performance targets for the nQueue Billback division.
2. For Mr Hellers this represents an allowance for a motor vehicle as well as a contribution to medical and life insurance.
3. The dollar value of the long term incentive and retention component in the above table is the fair value using a model that adapts the Monte Carlo simulation approach: (1) allocated over each year of the 3 year performance period for 2009 to 2011 and (2) allocated over the 7 year period from 2011 to 2017 for shares offered as a long term retention incentive. The fair value of the performance shares offered in 2011 for the performance period 2011 to 2013 at grant date was $1.912 per share valued according to the Monte Carlo simulation approach. The fair value of the shares offered in 2011 for the long term retention incentive for the period 2011 to 2017 at 1 January 2011 was $1.84 per share valued according to the Monte Carlo simulation approach. For the performance period 2011 to 2013 performance shares were offered as follows: Mr Hagglund (32,268 shares), Mr Zlotnick (21,160 shares), Mr Coventry, (10,580 shares) and Mr Dixon (35,971 shares). The date of grant for each of these participants was 1 January 2011. If the performance criteria are met, then the shares are released at no consideration on 31 December 2013. For the long term retention incentive period 2011 to 2017 performance shares were offered as follows: Mr Hagglund (25,000 shares), Mr Zlotnick (25,000 shares) and Mr Coventry (12,500 shares). These shares vest on 31 December 2017 at zero cents subject to the employees remaining in employment for the period. The fair value of performance shares which vested or were forfeited during the 2011 financial year are set out in the table below.
4. The dollar value of the share appreciation incentive in the above table is determined using a model that adapts the Monte Carlo simulation approach allocated over each year of the 3 year performance period for 2009 to 2011. The fair value of the rights offered for the performance period 2011 to 2013 was $0.620 valued according to the Monte Carlo simulation approach. 282,258 rights were issued under the plan on 1 January 2011 for the performance period 2011 to 2013. The fair value of appreciation rights which vested or were forfeited during the 2011 financial year are set out in the table below.
5. Employment ended on 31 December 2011. No termination benefit paid.
6. For the share appreciation incentive, the amount is calculated based on the difference between the company share price at vesting and the share price at date of issue spread over the three year performance period.
7. To the extent that any of the above are directors of any wholly owned subsidiaries of the Company no additional remuneration is paid.
8. No options were granted to any person during the year as part of their remuneration. No options vested during the financial year. All options issued in previous years were fully vested in prior years. No options were exercised during 2011.

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

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

Options and shareholding for directors and relevant employees can be found at Note 28 to the financial statements.

Indemnification of Directors and Officers and Auditors

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

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

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

Directors' Meetings

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

Reckon Limited – Attendance Tables						
Directors	Meeting					
	Board		Audit & Risk Committee		Remuneration Committee	
	A	B	A	B	A	B
JM Thame	11	11	2	2	2	2
I Ferrier	11	11	2	2	2	2
GJ Wilkinson	11	9	2	2	2	2
C Rabie	11	11	n/a	n/a	n/a	n/a

Non-Audit Fees

Details of the non-audit services can be found in Note 4 to the financial statements.

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

The directors are of the opinion that the services as disclosed in Note 4 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit & Risk Committee, for the following reasons:

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

On behalf of the directors

Mr J Thame
Chairman
Sydney, 25 March 2013.

Corporate Governance Report

The Company is committed to a system of relationships, policies and processes which align with the ASX Corporate Governance Principles and Recommendations, 2nd Edition ("the ASX Governance Principles") and the 2010 Amendments. It is a priority of the Board to ensure the Company's governance framework and support processes uphold these principles.

The Board is of the opinion that the Company's existing policies and processes effectively achieve the objectives of the relevant Recommendations. The few departures from the Recommendations in the ASX Governance Principles are generally justified on the basis that the formal requirements of the Recommendations are not applicable to the size of the Company and the resources available. Where appropriate, the Board seeks opportunities to adopt these Recommendations to suit the circumstances of the Company and continue to improve the Company's governance policies and processes.

The Board's Corporate Governance policies can be viewed by clicking the 'Investor Relations' link from the Company's website www.reckon.com.au

1. Management and Oversight

The Company is governed on behalf of the shareholders by its Board of Directors who in turn oversee the Company's management team. The responsibilities and duties of the Board are set out in the Constitution. The Board is responsible for ensuring appropriate risk management, accountability and control mechanisms. The Board also provides advice and input into development of the businesses generally, overall corporate strategy, performance objectives, and appointment of senior executives. The Board monitors and reviews the performance of the Company, financial reporting and implementation of strategy. The Board approves the annual budget, material capital expenditure and large acquisitions.

The Company has adopted each of the Recommendations relating to Principle 1 of the ASX Governance Principles, except for the requirement in Recommendation 1.1, only to the extent that there is no formal charter. The Board is of the opinion, given the relatively small size of the composition of the Board, the relatively flat structure of management, the size of the management team and open and frequent channels of communication between management and the Board, that there is adequate definition and understanding of the functions and responsibilities of the Board and management. The Board maintains sufficiently close oversight of operations and has close input to material decisions to ensure compliance with principles of good corporate governance. The Board recognises that with the growth and evolution of the Company, it is important to review the division of matters and responsibilities reserved to the Board.

The Board is able to efficiently deal with issues which, in other larger enterprises, may normally be delegated to committees because of the size of the Company and the management team. The Audit & Risk Committee and Remuneration Committee are the only committees of the Board.

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

- In the case of key management personnel other than head of divisions the review process is managed and administered by the Group Human Resources Manager. It generally involves a review and assessment of the performance of relevant executives and managers against key performance indicators. This process may also take into include feedback from peers where relevant and the Division CEOs and the relevant executive or manager. Where applicable, remedial steps and coaching are implemented. There may be further additional reviews undertaken through the year if necessary.

- In the case of heads of divisions and head office management (CFO, General Counsel and Company Secretary) the review process is managed and administered by the Group Chief Executive Officer. The review involves a one-on-one interview in which performance against key performance indicators is assessed and discussed and feedback from peers (where relevant) is reviewed. Where necessary, remedial steps are identified and coaching is implemented. There may be additional reviews undertaken through the year if necessary.

In addition, a portion of remuneration for key management personnel is tied into the financial performance of the Company as set out in more detail in the Remuneration Report. Performance evaluation for key management personnel was undertaken in 2012 and it was in accordance with the processes disclosed in this report.

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

The Group Human Resources Manager is also responsible for managing and administering an induction process for newly appointed senior executives. In addition the Group CEO and divisional CEOs are also involved in the briefing of new senior executives.

2. The Board

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

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

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

The directors periodically review the composition of the Board to ensure that members have the desired breadth of experience, skills and expertise to govern the Company effectively. When considering nominees for any future candidates for the Board, the directors will take appropriate steps to ensure that it considers a broad range of candidates to ensure that the Company has the benefit of the appropriate mix of experience, skills and diversity in its decision making for the best interests of the Company as a whole.

Directors are entitled to seek independent professional advice at the Company's expense to assist them in fulfilling their duties in order to comply with all applicable laws and regulations. There is no formal procedure for the Board to agree when to take independent advice at the expense of the Company, but given the size of the Board there is no efficiency to be obtained in formalising this process. The independent non-executive directors exercise their judgment to call for such advice when they deem appropriate. The Chairman also has frequent contact with internal legal counsel to assess the need for external advice.

The Board met eleven times during 2012. The details of attendance at these meetings are set out in the Directors' Report. The independent non-executive directors monitor and review the ongoing performance of the executive directors and key executives. The independent non-executive directors occasionally meet informally without management being present to generally discuss the affairs of the Company and the overall performance of key executives.

The independent non-executive directors are subject to the Company's constitution and their continuity of tenure is dependent on re-election by shareholders in accordance with the constitution. Any decision regarding the appointment of new directors is taken cognisant of the need to appoint someone who, taking into account the mix of skills, experience and perspective of the other directors, is appropriately qualified and as far as possible familiar with the Company's market sector.

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

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

3. Ethical and Responsible Decision Making

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

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

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

The Company recognises that diversity and inclusiveness is a critical aspect of effective management of its people and their contributions to the success of the Company. This diversity is reflected in the differences in gender, race, age, culture, education, family or carer status, religion and disability which is found across the Company, its employees, consultants and contractors.

Based on the profile of executive, management and employees in 2011 used to benchmark the current status of diversity as to gender, women continue to represent 29% of the employees in 2012. There are no female members of the Board or female senior executive managers.

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

1. To achieve greater representation of females in the Reckon Group, particularly in technical and supervisor/manager roles.
2. To review policies and internal procedures to ensure they provide equitable, fair and flexible work practices, including consistency with the Company's commitment to diversity, particularly gender diversity, in the organisation.

3. To implement training (in-house or external where relevant) to support a culture of diversity, for example: appropriate behaviour, harassment etc.
4. Development of a mentoring/succession program for all employees to encourage females to remain in the business.

The Company has measured its performance against these objectives in 2012. There has not been any significant percentage increase of females in technical roles. This is consistent with the Company's overall recruiting needs for technical roles in 2012. The Company will again continue to seek a 5% increase on the 2011 numbers by December 2013.

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

4. Integrity in Financial Reporting

The Board assumes the responsibility to ensure the integrity of the Company's financial reporting and has established the Audit & Risk Committee to focus on the issues relating to the integrity of the financial reporting of the Company and oversight and review of the Company's risk management. The terms of reference for the Audit & Risk Committee, to review and monitor all financial, risk management and compliance policies, were formalised in a Charter in 2003 to meet the requirements of the ASX Governance Principles. The Audit & Risk Committee consists of John Thame and Ian Ferrier, independent, non-executive directors, as well as the non-executive director Greg Wilkinson, to ensure independent review of financial reporting over and above formal audit processes. Details of their experience and qualifications are set out in the Directors' Report.

The Audit & Risk Committee also meets informally to discuss matters including risk management and reporting. With the appointment of Greg Wilkinson to the Audit & Risk Committee in February 2010, the Board is of the opinion that the structure of the Committee, together with its considerable technical expertise in the market sector of the Company and financial literacy, enables it to discharge it functions effectively and meet the objectives of Principle 4 and that the Company has fully adopted Recommendation 4.2.

Deloitte Touche Tohmatsu, the Company's auditors, report directly to the Audit & Risk Committee on the appropriateness of the Company's internal accounting policies and practices. The Board reviews the adequacy of existing external audit arrangements each year, with particular emphasis on the scope and quality of the audit. The Audit & Risk Committee provides written advice to the Board on the standard of independence of the auditors in light of any non-audit services during 2012 and which is reported in the Directors' Report.

At each Audit & Risk Committee meeting, the independent non-executive directors meet separately with the auditors without management being present to review any concerns that the auditors may have regarding the financial management of the Company.

The Audit & Risk Committee met twice during 2012. The Audit & Risk Committee reports back to the Board after each Audit & Risk Committee meeting. The details of attendance at these meetings are set out in the Directors' Report. The Board is aware of its obligations to ensure the appropriate selection and rotation of external auditors and the external audit engagement partners and closely monitors and reviews the engagement of the Company's external auditors.

5. Timely and Balanced Disclosure

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

6. Rights of Shareholders

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

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

The Company's auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report at the meeting.

7. Recognise and Manage Risk

As stated above in paragraph 1, the Board is responsible for ensuring appropriate risk management, accountability, and control mechanisms. It constantly monitors the operational and financial aspects and material risks of the Company's activities and, through the Audit & Risk Committee, considers the recommendations and advice of the auditors and other external advisers on the operational and financial risks that face the Company. The Group CEO and Group CFO monitor and review the financial performance of the Company and monitor any potential risk virtually on a daily basis. The Board has received assurance from the CEO and the CFO that the s295A Declaration provided in the Financial Report is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The Board is of the opinion that there is substantial compliance with the ASX Governance Principle 7 although Recommendations 7.1 and 7.2 have not yet been fully adopted.

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

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

At present the nature of operations and scope of the business is reasonably well established and understood by management and the Board. The decision making and reporting processes in the Company incorporate an assessment of the relevant material risks, for example in the planning, budget, HR, product development, R&D, legal and compliance activities and, where relevant, any material risk issues are reported to and considered by the Board. The planning and budget process involves both the executive and senior management, which means all of these employees have a more than adequate understanding of the issues, activities and opportunities across the Company. In turn this enables them to manage operational, planning, strategic and risk issues in the Company. In addition, the Company regularly conducts reviews of the material risks in the context of the annual insurance renewals and, in relation to acquisitions through due diligence. Relevant risk factors are included in the various management and financial reports to the Board and are then considered by the Board. The reporting, identification and management of risk are now effectively a standing board agenda item.

Due to the effectiveness of the existing processes and the size of the business, business risk management systems, policies and procedures have not been comprehensively formalised. With a view to fully adopting Recommendations 7.1 and 7.2, the Company's risk management systems, policies and processes are under consideration to be formalised and documented, if necessary.

8. Remunerate Fairly and Responsibly

The Company remunerates directors and key executives in accordance with the aspirations set out in ASX Governance Principle 8. Accordingly, the Board has adopted a remuneration policy designed to attract and maintain talented and motivated directors and senior employees so as to encourage enhanced performance of the Company. There is a clear relationship between performance and remuneration and a desire to strike the correct balance between the various components making up remuneration. The Remuneration Committee consists of the independent, non-executive directors, John Thame and Ian Ferrier and non-executive director Greg Wilkinson. Details of their experience and qualification are set out in the Directors' Report. The Remuneration Committee ensures independent review of financial reporting over and above formal audit processes. The Remuneration Committee supervises the development and implementation of the Company's remuneration policy including the operation of option plans, and reviews the performance of the executive directors and senior executives. There is no formal charter for the Remuneration Committee, but it does fix policy and reward in accordance with ASX Governance Principle 8. The full detail of the policy and remuneration is contained in the Remuneration Report. The Remuneration Committee met twice during 2012. The details of attendance at these meetings are set out in the Directors' Report.

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25 March 2013

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

RECKON LIMITED

Dear Board Members

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

As lead audit partner for the audit of the financial statements of Reckon Limited for the financial year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Michael Kaplan
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of Reckon Limited

Report on the Financial Report

We have audited the accompanying financial report of Reckon Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 33 to 87.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Auditor's Report continued

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Reckon Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 21 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Reckon Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Michael Kaplan
Partner
Chartered Accountants
Sydney, 25 March 2013

Directors' Declaration

The Directors of the company declare that:

1. the financial statements and notes as set out on pages 34 to 87, 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 2012 and of the performance for the year ended on that date of the consolidated Group;

2. the Chief Executive Officer and the Chief Finance Officer have each declared that:

- the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the Corporations Act 2001;
- the financial statements and notes for the financial year comply with the Accounting Standards, and
- the financial statements and notes for the financial year give a true and fair view;

3. in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

Mr J Thame
Chairman

Sydney, 25 March 2013

Consolidated Income Statement

for the year ended 31 December 2012

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Continuing operations			
Revenue	2	**96,765**	**90,730**
Product and selling costs		(17,109)	(14,617)
Royalties		(5,322)	(4,783)
Employee benefits expenses		(28,520)	(27,349)
Share-based payments expenses		(304)	(702)
Marketing expenses		(2,175)	(2,197)
Premises and establishment expenses		(2,146)	(2,261)
Depreciation and amortisation of other non-current assets		(9,824)	(8,552)
Telecommunications		(907)	(958)
Legal and professional expenses		(798)	(707)
Finance costs		(311)	(168)
Other expenses		(4,745)	(4,397)
Business acquisition costs		(173)	-
Recovery of costs/Litigation settlement		-	542
Net costs associated with premises relocation:			
Estimated sub-lease rent shortfall		(492)	(1,796)
Leasehold improvement amortisation		-	(556)
Profit before income tax		**23,939**	**22,229**
Income tax expense	3	(6,172)	(5,536)
Profit for the year		**17,767**	**16,693**
Profit attributable to:			
Owners of the parent	23	17,342	16,062
Non-controlling interest		425	631
		17,767	**16,693**
Earnings per share		**Cents**	**Cents**
Basic Earnings per Share	24	13.4	12.1
Diluted Earnings per Share	24	13.3	12.0

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Profit for the year		**17,767**	**16,693**
Other comprehensive income, net of income tax			
Fair value adjustment of equity instruments	22	247	(1,067)
Exchange difference on translation of foreign operations	22	186	(875)
Total other comprehensive income		433	(1,942)
Total comprehensive income		**18,200**	**14,751**

Total comprehensive income attributable to:		
Owners of the parent	17,775	14,120
Non-controlling interest	425	631
	18,200	**14,751**

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

Consolidated Statement of Financial Position

as at 31 December 2012

	Note	Consolidated	
		2012 $'000	2011 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	29	1,926	4,703
Trade and other receivables	6	8,795	6,730
Inventories	5	1,244	1,181
Other assets	7	2,695	1,763
Total Current Assets		**14,660**	**14,377**
Non-Current Assets			
Receivables	6	1,391	777
Financial assets	8	56	6,257
Investment in joint venture entity	9	660	-
Property, plant and equipment	10	3,415	3,401
Deferred tax assets	11	141	86
Intangible assets	12	68,032	45,966
Total Non-Current Assets		**73,695**	**56,487**
Total Assets		**88,355**	**70,864**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	4,922	4,184
Borrowings	14	10,994	-
Current tax payables		1,119	2,365
Provisions	16	3,341	4,788
Deferred revenue		8,674	6,295
Total Current Liabilities		**29,050**	**17,632**
Non-Current Liabilities			
Borrowings	14	136	-
Other financial liabilities	15	10,608	-
Deferred tax liabilities	18	2,949	1,089
Provisions	16	1,194	1,647
Total Non-Current Liabilities		**14,887**	**2,736**
Total Liabilities		**43,937**	**20,368**
Net Assets		**44,418**	**50,496**
Equity			
Issued capital	21	16,878	15,752
Reserves	22	(14,839)	(2,080)
Retained earnings	23	42,379	36,621
Equity attributable to owners of the parent		44,418	50,293
Non-controlling interest	30	-	203
Total Equity		**44,418**	**50,496**

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 2012

Consolidated	Issued capital	Share buyback reserve	Foreign currency translation reserve	Share-based payments reserve	Asset revaluation reserve	Retained earnings	Acquisition of non-controlling interest reserve	Attributable to owners of the parent	Non-controlling interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2012	15,752	-	(1,569)	556	(1,067)	36,621	-	50,293	203	50,496
Profit for the year	-	-	-	-	-	17,342	-	17,342	425	17,767
Other comprehensive income:										
Fair value adjustment of financial assets	-	-	-	-	247	-	-	247		247
Exchange differences on translation of foreign operations	-	-	186	-	-	-	-	186	-	186
Total comprehensive income	-	-	186	-	247	17,342	-	17,775	425	18,200
Share based payments expense	-	-	-	248	-	-	-	248	-	248
Share buyback (Note 21)	-	(7,612)	-	-	-	-	-	(7,612)	-	(7,612)
Dividends paid	-	-	-	-	-	(10,764)	-	(10,764)	(549)	(11,313)
Treasury shares vested/lapsed	301	-	-	(301)	-	-	-	-	-	-
Treasury shares acquired	(541)	-	-	-	-	-	-	(541)	-	(541)
Transfer to retained earnings	-	-	-	-	820	(820)	-	-	-	-
Transfer to acquisition of non-controlling interest reserve	-	-	-	-	-	-	79	79	(79)	-
Payment for non-controlling interest in nQueue Billback subsidiaries (Note 29(d))	-	-	-	-	-	-	(4,496)	(4,496)	-	(4,496)
Remeasurement of Linden House option liability (Note 15)	-	-	-	-	-	-	(564)	(564)	-	(564)
Transfer of prior year buyback	1,366	(1,366)	-	-	-	-	-	-	-	-
Balance at 31 December 2012	**16,878**	**(8,978)**	**(1,383)**	**503**	**-**	**42,379**	**(4,981)**	**44,418**	**-**	**44,418**

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 2012

Consolidated	Issued capital	Share buyback reserve	Foreign currency translation reserve	Share-based payments reserve	Asset revaluation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2011	18,048	-	(694)	631	-	31,156	49,141	-	49,141
Profit for the year	-	-	-	-	-	16,062	16,062	631	16,693
Other comprehensive income:									
Fair value adjustment of financial assets	-	-	-	-	(1,067)	-	(1,067)	-	(1,067)
Exchange differences on translation of foreign operations	-	-	(875)	-	-	-	(875)	-	(875)
Total comprehensive income	-	-	(875)	-	(1,067)	16,062	14,120	631	14,751
Share based payments expense	-	-	-	375	-	-	375	-	375
Share buyback	(1,366)	-	-	-	-	-	(1,366)	-	(1,366)
Dividends paid	-	-	-	-	-	(10,597)	(10,597)	(428)	(11,025)
Treasury shares vested/lapsed	450	-	-	(450)	-	-	-	-	-
Treasury shares acquired	(1,389)	-	-	-	-	-	(1,389)	-	(1,389)
Contributions of equity, net of transaction costs	9	-	-	-	-	-	9	-	9
Balance at 31 December 2011	**15,752**	**-**	**(1,569)**	**556**	**(1,067)**	**36,621**	**50,293**	**203**	**50,496**

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 2012

	Note	Consolidated Inflows / (outflows) 2012 $'000	2011 $'000
Cash Flows From Operating Activities			
Receipts from customers		104,956	99,864
Payments to suppliers and employees		(74,288)	(68,724)
Dividends received		100	280
Interest received		59	206
Interest paid		(311)	(168)
Income taxes paid		(6,488)	(4,639)
Net cash inflow from operating activities	29(b)	**24,028**	**26,819**
Cash Flows From Investing Activities			
Payment for purchase of business, net of cash acquired	29(c)	(8,511)	-
Payment for non-controlling interest (net)	29(d)	(4,496)	-
Payment for investment in joint venture entity	9	(660)	-
Payments for purchase of intellectual property		-	(35)
Payment for capitalised development costs		(9,616)	(7,350)
Payment for property, plant and equipment		(1,371)	(1,756)
Payment for investment	8	-	(7,268)
Proceeds from sale of investment	8	6,448	-
Net cash outflow from investing activities		**(18,206)**	**(16,409)**
Cash Flows From Financing Activities			
Proceeds from issues of equity securities		-	9
Proceeds from/(repayment of) borrowings		10,484	(2)
Payment for other financial liabilities		(124)	-
Payment for share buyback	21 / 22	(7,612)	(1,366)
Payment for treasury shares	21	(541)	(1,389)
Dividends paid to owners of the parent	31	(10,764)	(10,597)
Non-controlling interest dividends paid		(549)	(428)
Net cash outflow from financing activities		**(9,106)**	**(13,773)**
Net Increase/(Decrease) in cash and cash equivalents		**(3,284)**	**(3,363)**
Cash and cash equivalents at the beginning of the financial year		4,703	8,095
Effects of exchange rate changes on cash and cash equivalents		13	(29)
Cash and cash equivalents at the end of the financial year	29(a)	**1,432**	**4,703**

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

Notes to the Financial Statements

for the year ended 31 December 2012

1 Summary of Significant Accounting Policies

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

Basis of preparation

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

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

The financial statements were authorised for issue by the directors on 25 March 2013.

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

Early adoption of Accounting Standards

The directors have elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 9 'Financial Instruments' for this financial year, even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2015. Investments in equity instruments, which were previously classified as available for sale financial assets, are from 1 January 2012 irrevocably classified as equity instruments revalued through other comprehensive income. They continue to be valued at fair value with changes to value being recognised in asset revaluation reserve (previously available for sale asset revaluation reserve). Realised gains/losses are not recycled to net profits as was previously required under AASB 139. The adoption of AASB 9 has no effect on the comparative Statement of Financial Position, Statement of Comprehensive Income or Income Statement.

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 where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

1 Summary of Significant Accounting Policies continued

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

(b) Business Combinations

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

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

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

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

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".

1 Summary of Significant Accounting Policies continued

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

(c) Investments in Joint Ventures

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'. Under the equity method, an investment in a jointly controlled entity is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entity. When the Group's share of losses of a jointly controlled entity exceeds the Group's interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Upon disposal of a jointly controlled entity that results in the Group losing significant influence over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with AASB 139. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that jointly controlled entity.

When a Group entity transacts with the jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

1 Summary of Significant Accounting Policies continued

(d) Depreciation and Amortisation

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

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

(e) Trade Payables

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

(f) Contributed Equity

Transaction Costs on the Issue of Equity Instruments

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

(g) Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Reckon Limited's functional and presentation currency.

Transactions and balances

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

Group companies

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

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

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

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

1 Summary of Significant Accounting Policies continued

(h) Goods and Services Tax

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

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

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

(i) Intangible assets

Goodwill

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

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

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

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

Intellectual Property

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

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

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

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

Research and development costs

Research expenditure is recognised as an expense when incurred.

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

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

1 Summary of Significant Accounting Policies continued

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.

(j) Income Tax

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

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

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

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

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

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

1 Summary of Significant Accounting Policies continued

(k) Inventories

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

(l) Leased Assets

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

Operating lease payments are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. Lease incentives are initially recognised as a liability and are amortised over the term of the lease on a straight line basis.

(m) Employee Benefits

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

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

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

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

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

(n) Receivables

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

(o) Impairment of assets

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

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

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

1 Summary of Significant Accounting Policies continued

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.

(p) Revenue Recognition

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

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

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

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

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

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

(q) Deferred Revenue

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

(r) Earnings per share

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

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

(s) Cash and cash equivalents

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

1 Summary of Significant Accounting Policies continued

(t) Financial instruments

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

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

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

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

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

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

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

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

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

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

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

(u) Provisions

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

(v) Fair Value estimation

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

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

(w) Significant accounting judgments, estimates and assumptions

Significant accounting judgments

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

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

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

Consolidation of Linden House – Linden House has been consolidated on the basis of the existence of a substantive call option, which is exercisable at acquisition date, and which enables Reckon Limited to acquire the remaining interest in the company.

1 Summary of Significant Accounting Policies continued

Significant accounting estimates and assumptions

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

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

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

Product life and amortisation – The Group amortises 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.

Surplus lease space – The Group provides for surplus lease space based on an estimate of the income expected to be generated taking into consideration market conditions relating to rental yields and vacancy periods. Further details are set out in Note 16.

Other financial liabilities – The Group has recognised as a liability the fair value of an option instrument arising in connection with a business acquisition. Fair value determination is based on assumptions relating to future profitability of the acquired business and market discount rates. The chosen valuation techniques and assumptions used are believed to be appropriate in determining the fair value of financial instruments. Further details are set out in Notes 15 and 29.

1 Summary of Significant Accounting Policies continued

(x) New accounting standards not yet effective

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

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'	1 July 2012	31 December 2013
AASB 7 'Financial Instruments: Disclosures'	1 July 2012	31 December 2013
AASB 10 'Consolidated Financial Statements', AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	31 December 2013
AASB 11 'Joint Arrangements', AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	31 December 2013
AASB 12 'Disclosure of Interests in Other Entities', AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	31 December 2013
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	31 December 2013
AASB 119 'Employee Benefits'(2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	31 December 2013
AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance'	1 July 2012	31 December 2013
AASB 121 'The Effects of Changes in Foreign Exchange Rates'	1 July 2012	31 December 2013
AASB 127 'Separate Financial Statements' (2011), AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2012	31 December 2013
AASB 128 'Investments in Associates and Joint Ventures'(2011), AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	31 December 2013
AASB 132 'Financial Instruments: Presentation'	1 July 2012	31 December 2013
AASB 133 'Earnings per Share'	1 July 2012	31 December 2013

1 Summary of Significant Accounting Policies continued

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 134 'Interim Financial Reporting'	1 July 2012	31 December 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	31 December 2013
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	31 December 2013
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	31 December 2013
AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	31 December 2014
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	31 December 2013
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	31 December 2013
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'	1 January 2013	31 December 2013

At the date of authorisation of the financial statements, the following IASB was also in issue but not effective, although an Australian equivalent Standard has not yet been issued:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	1 January 2014	31 December 2014

	Consolidated	
	2012 $'000	2011 $'000

2 Profit for the Year

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

Revenue		
Sales revenue		
Sale of goods and rendering of services	96,606	90,244
Other Revenue		
Dividend income	100	280
Interest revenue – Bank deposits	59	206
	159	486
	96,765	90,730
Expenses		
Cost of Sales	22,431	19,400
Bad debt expense:		
Other entities	48	25
Finance costs expensed:		
Bank loans and overdraft	311	168
Net transfers to/(from) provisions:		
Sales returns and rebates	(121)	2
Employee benefits	(917)	(165)
Allowance for doubtful debts	23	(62)
Depreciation of non-current assets:		
Property, plant and equipment	996	1,034
Amortisation of non-current assets:		
Leasehold improvements	527	477
Intellectual property	1,018	989
Development costs	7,282	6,052

	Consolidated 2012 $'000	2011 $'000
2 Profit for the Year continued		
Foreign exchange losses/(gains)	69	26
Employee benefits expense:		
Post employment benefits – defined contribution plans	2,283	2,198
Termination benefits	25	306
Share based payments:		
Equity-settled share-based payments	248	375
Cash-settled share-based payments	56	327
	304	702
Research and development costs written off	1,190	2,328
Operating lease rental expenses:		
Minimum lease payments	1,906	1,949

	Consolidated	
	2012 $'000	2011 $'000

3 Income Tax

(a) Income tax expense recognised in profit and loss		
Current tax	5,470	6,390
Deferred tax	930	(548)
Under /(over) provided in prior years	(228)	(306)
	6,172	5,536
(b) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense/(income tax revenue) in the financial statements as follows:		
Profit before income tax	23,939	22,229
Income tax expense calculated at 30% of profit	7,182	6,669
Tax Effect of:		
Effect of higher tax rates on overseas income	25	42
Tax effect of non-deductible/non-taxable items:		
Non-controlling interest component	(81)	(162)
Research and development claims	(595)	(608)
Sundry items	(131)	(99)
	6,400	5,842
Under/(over) provision in prior years	(228)	(306)
Income tax expense attributable to profit	6,172	5,536
(c) Future income tax benefits not brought to account as an asset: not probable of recovery		
Tax losses:		
Revenue	-	-
Capital	2,507	2,295
	2,507	2,295

	Consolidated	
	2012 $	2011 $

4 Remuneration of Auditors

(a) Deloitte Touche Tohmatsu

	2012 $	2011 $
During the year, the auditors of the parent entity earned the following remuneration:		
Auditing and reviewing of financial reports	211,624	202,784
Tax compliance and consulting services	75,126	82,587
	286,750	285,371
(b) Other Auditors		
Auditing and reviewing of financial reports	53,126	37,494
Tax compliance services	25,136	26,199
	78,262	63,693
	365,012	349,064

	Consolidated	
	2012 $'000	2011 $'000

5 Inventories

	2012 $'000	2011 $'000
Finished goods:		
At lower of cost and net realisable value	1,244	1,181

6 Trade and Other Receivables

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current:		
Trade receivables (i)	8,270	6,520
Allowance for doubtful debts	(430)	(455)
	7,840	6,065
Other receivables	955	665
	8,795	6,730
Non current:		
Trade receivables	1,301	427
Other receivables	90	100
Other receivables: non-controlling interest holder	-	250
	1,391	777
(i) The ageing of past due receivables at year end is detailed as follows:		
Past due 0-30 days	1,652	1,512
Past due 31-60 days	962	388
Past due 61+ days	798	979
Total	3,412	2,879
The movement in the allowance for doubtful accounts in respect of trade receivables is detailed below:		
Balance at beginning of the year	455	542
Amounts written off during the year	(48)	(25)
Increase/(reduction) in allowance recognised in the profit and loss	23	(62)
Balance at end of year	430	455

	Consolidated	
	2012 $'000	2011 $'000

7 Other Assets

Prepayments	1,104	780
Other	1,591	983
	2,695	1,763

8 Other Financial Assets

Investments: quoted shares at fair value	-	6,201
Security deposits	56	56
	56	6,257

During the year Reckon Limited disposed of its interest in Melbourne IT Ltd for $6,448 thousand.

9 Investment in Joint Venture Entity

Investment in Connect2Field Holdings Pty Ltd	660	-

On 11 April 2012 the Group acquired a 30% interest in Connect2Field Holdings Pty Ltd, a company incorporated in Australia and engaged in the development and distribution of a cloud based job management and scheduling application, for consideration of $660 thousand. All key decisions relating to the company require unanimous agreement of the controlling shareholders, including Reckon Limited.

The company has total assets of $1,618 thousand, total liabilities of $53 thousand, and net assets of $1,565 thousand. Reckon Limited's share of net assets is $470 thousand.

Total revenue for the year since Reckon Limited acquired its interest was $181 thousand, and total losses were $217 thousand. Reckon Limited's share of the losses was $65 thousand.

	Consolidated 2012 $'000	Consolidated 2011 $'000

10 Property, Plant And Equipment

Leasehold Improvements		
At cost	3,388	3,490
Less: Accumulated amortisation	2,692	2,267
Total leasehold improvements	696	1,223

Plant and equipment		
At cost	6,816	5,963
Less: Accumulated depreciation	4,097	3,785
Total plant and equipment	2,719	2,178
	3,415	3,401

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

	Leasehold Improvements $'000	Plant and Equipment $'000	Total $'000
Consolidated			
Carrying amount at 1 January 2012	1,223	2,178	3,401
Additions	-	1,371	1,371
Acquisitions through business combinations	-	208	208
Depreciation/amortisation expense	(527)	(1,038)	(1,565)
Balance at 31 December 2012	696	2,719	3,415
Consolidated			
Carrying amount at 1 January 2011	1,230	2,530	3,760
Additions	1,026	730	1,756
Depreciation/amortisation expense	(1,033)	(1,082)	(2,115)
Balance at 31 December 2011	1,223	2,178	3,401

	Consolidated	
	2012 $'000	2011 $'000

11 Deferred Tax Asset

The balance comprises temporary differences attributable to:

	2012 $'000	2011 $'000
Doubtful debts	7	17
Employee benefits	55	27
Other provisions	79	42
	141	86

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

Reconciliation:

	2012 $'000	2011 $'000
Opening balance at 1 January	86	56
Credited/(charged) to profit or loss	55	30
Balance at 31 December	141	86

	Consolidated	
	2012 $'000	2011 $'000

12 Intangibles

Intellectual property – at cost (i)	14,984	12,596
Accumulated amortisation	(10,005)	(8,987)
	4,979	3,609
Development costs – at cost	49,119	38,131
Accumulated amortisation	(31,174)	(23,549)
	17,945	14,582
Goodwill – at cost	45,108	27,775
	68,032	45,966

(i) The intellectual property carrying amount comprises of customer contracts of $4,417 thousand (2011: $3,609 thousand) and brand names of $562 thousand (2011: $nil).

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

Professional Division Australia	10,361	10,361
Professional Division New Zealand	1,742	1,742
nQueue Billback	1,965	2,011
Elite	2,536	2,536
Reckon Docs (formerly Corporate Services)	11,125	11,125
Virtual Cabinet	17,379	-
	45,108	27,775

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 (2013) period. Subsequent cash flows are projected using constant growth rates of 3% per annum for all CGU's apart from Virtual Cabinet. Constant growth rates of 8% have been used for Virtual Cabinet to reflect the early stage of the evolution of this CGU, which is expected to experience high growth over the next few years. An average post-tax discount rate of 12.2% (2011: 12.2%) (pre-tax rate: 16%) reflecting assessed risks associated with CGU's have been applied to determine the present value of future cash flow projections. No impairment write-offs have been recognised during the year (2011: nil). With the exception of Virtual Cabinet, should the projected growth rates reduce to 0%, no material impairment would arise. In the case of Virtual Cabinet, the projected growth rates would need to reduce to below 5% for an impairment to arise.

12 Intangibles continued

Consolidated movements in intangibles

	Goodwill $'000	Intellectual Property $'000	Development Costs $'000	Total $'000
At 1 January 2012	27,775	3,609	14,582	45,966
Additions	-	-	9,658	9,658
Acquisitions through business combinations (note 29)	17,204	2,388	987	20,579
Effect of foreign currency exchange differences	129	-	-	129
Amortisation charge	-	(1,018)	(7,282)	(8,300)
At 31 December 2012	45,108	4,979	17,945	68,032
At 1 January 2011	28,639	4,563	13,236	46,438
Additions	-	35	7,398	7,433
Effect of foreign currency exchange differences	(864)	-	-	(864)
Amortisation charge	-	(989)	(6,052)	(7,041)
At 31 December 2011	27,775	3,609	14,582	45,966

13 Trade and Other Payables

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current:		
Trade payables and sundry accruals (i)	4,922	4,184

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

	Consolidated 2012 $'000	2011 $'000

14 Borrowings

	Consolidated 2012 $'000	2011 $'000
Current:		
Bank borrowings (i)	10,994	-
Other borrowings	-	-
	10,994	-
Non-current:		
Hire purchase liabilities	136	-

i) The consolidated entity has existing bank facilities totaling $23.75 million. The facility comprises a variable rate bank overdraft facility, and a multi option facility (which includes a bill facility and bank guarantee/transactional facility). The facility covers an 18 month term expiring on 31 December 2013. The facility is secured over the Australian net assets of the Group ($44.4 million at 31 December 2012).

	Bank overdraft $'000	Bill Facility $'000	Bank Guarantee facility $'000
The available, used and unused components of the facility at year end is as follows:			
Available	1,000	20,000	2,750
Used	494	10,500	1,846
Unused	506	9,500	904
The remaining contractual maturity for the facility (including both interest and principal) is as follows:			
0-12 months	494	10,500	1,846
Weighted average interest rate	7.5%	5.1%	-

	Consolidated 2012 $'000	Consolidated 2011 $'000

15 Other Financial Liabilities

Linden House option liability (i)	10,608	-

(i) This balance represents the present value of expected future payments arising in connection with the acquisition of the non-controlling interest in Linden House Software Limited (refer Note 29(c)), including future profit entitlements over the next 3 years and the redemption price of put option instruments issued in respect of their remaining equity interest in the company. A discount rate of 12.4% has been applied to future cash flow estimates to derive the outstanding liability. Recognising the present value of the redemption price effectively treats the option as if it has been exercised, which is an equity transaction. Any re-measurement of this liability is therefore treated as an equity transaction processed through an " acquisition of non-controlling interest reserve". Within the context of AASB 7, this is classified as a level 2 fair value measurement, being derived from inputs other than quoted share prices that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). The gross amount of $13.2 million is payable between one and three years after balance date.

16 Provisions

Current:		
Sales returns, volume rebates	61	182
Employee benefits	2,425	3,373
Surplus premises	516	590
Commissions and sundry provisions	339	643
	3,341	4,788
Non-current:		
Employee benefits	625	594
Surplus premises	569	1,053
	1,194	1,647

16 Provisions continued

Movement in provisions

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

	Surplus premises $'000	Sales returns, volume rebates $'000	Commissions and sundry $'000	Total $'000
2012 Consolidated				
Carrying amount at the start of the year	1,643	182	643	2,468
Amounts paid	(1,050)	-	-	(1,050)
Additional provisions recognised/(utilised)	492	(121)	(304)	67
Carrying amount at the end of the year	1,085	61	339	1,485

The provision for surplus premises represents the present value of the future lease payments on the Pyrmont premises that the Group is presently obligated to make under the operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements where applicable. The lease expires in February 2015.

17 Working Capital Deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of $14,390 thousand (December 2011:$3,255 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Furthermore, borrowings obtained during the current year to finance business acquisitions are shown as a current liability at year end due to the expiry of the existing bank facility agreement on 31 December 2013. The Group expects to refinance the existing facility during the course of the 2013 financial year. Unused bank overdraft and bill facilities at balance date total $10 million. Also, included in current liabilities is deferred revenue of $8,674 thousand (December 2011:$6,295 thousand), settlement of which will involve substantially lower cash flows.

18 Deferred Tax Liabilities

	Consolidated 2012 $'000	Consolidated 2011 $'000
The temporary differences are attributable to:		
Doubtful debts	(102)	(112)
Employee benefits	(1,109)	(1,235)
Sales returns and volume rebates	(18)	(55)
Deferred revenue	(598)	(574)
Difference between book and tax value of non-current assets	5,802	4,467
Other provisions	(1,026)	(1,402)
	2,949	1,089
Details of unrecognised deferred tax assets can be found in Note 3(c)		
Reconciliation:		
Opening balance at 1 January	1,089	1,607
Acquisition of business (Note 29)	875	-
Charged (credited) to profit or loss	985	(518)
Balance at 31 December	2,949	1,089

	Parent 2012 $'000	Parent 2011 $'000

19 Parent Entity Disclosures

Financial position

	2012 $'000	2011 $'000
Assets		
Current assets	2,756	6,172
Non-current assets	76,551	62,130
	79,307	68,302
Liabilities		
Current liabilities	18,384	9,566
Non-current liabilities	14,138	8,842
	32,522	18,408
Equity		
Share capital	16,878	15,752
Share buyback reserve	(8,978)	-
Available-for-sale revaluation reserve	-	(1,067)
Share based payments reserve	503	556
Acquisition of non-controlling interest reserve	(485)	-
Retained earnings	38,867	34,653
	46,785	49,894
Financial performance		
Profit for the year	15,752	15,855
Other comprehensive income	247	(1,067)
Total comprehensive income	15,999	14,788
Capital commitments for the acquisition of property, plant and equipment	**-**	**-**

Other

Reckon Limited assets have been used as security for the bank facilities set out in Note 14.

The parent entity has no contingent liabilities.

	Consolidated 2012 $'000	Consolidated 2011 $'000

20 Employee Benefits

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

	2012 $'000	2011 $'000
Accrued annual leave:		
Current (Note 16)	1,272	1,286
Long term incentive:		
Current (Note 16)	196	1,073
Non-current (Note 16)	91	211
Provision for long service leave:		
Current (Note 16)	957	1,014
Non-current (Note 16)	534	383
	3,050	3,967

Long-term incentive plan

The long-term incentive plan was approved at the Special General Meeting on 20 December 2005, and comprises three possible methods of participation: an option plan, a performance share plan and a share appreciation plan. The Board has discretion to make offers to applicable employees to participate in any of these plans. Options granted and/or performance shares awarded (all in respect of the Company's ordinary shares) and/or share appreciation rights do not vest before three years after their grant date and are conditional on the participant remaining employed at vesting date, subject to board discretion. Vesting is also conditional upon the Company achieving defined performance criteria. The performance criteria are based upon a total shareholder return (TSR) target. A TSR is the return to shareholders over a prescribed period, being the growth in the Company's share price plus dividends or returns of capital for that period. The Company's initial TSR target will be the Company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator Group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the Board) over the same period. The initial comparator group was determined by independent advisers and was set out in the Chairman's speech at the Special General Meeting on 20 December 2005. The Board reviews the suitability of the comparator group on an ongoing basis. Only 50% of options or performance shares become exercisable or vest if the initial performance criterion is satisfied. The extent to which the balance of options or performance shares become exercisable or vest will depend on the extent to which the initial performance criterion is exceeded (i.e. the extent to which the Company exceeds a median ranking against the TSR position of the comparator group of companies).

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

20 Employee Benefits continued

The share appreciation rights plan represents an alternative remuneration element (to offering options or performance shares) under which the Board can invite relevant employees to apply for a right to receive a cash payment from the Company equal to the amount (if any) by which the market price of the Company's shares at the date of exercise of the right exceeds the market price of the Company's shares at the date of grant of the right. The right may only be exercised if performance criteria are met. The performance criteria are fixed by the Board in the exercise of its discretion. At present these are the same as the TSR target set for the right to exercise options or for performance shares to vest.

No options were issued during the year (2011: Nil).

396,825 (2011: 282,258) appreciation rights and 277,940 (2011:269,204) performance shares, were issued during the year. The fair value of these rights was 44 cents (2011: 62 cents) and the shares were $1.785 (2011: $1.912), using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of $2.26; expected volatility of 27.7%; dividend yield of 3.5%; and a risk free rate of 3.3%. The expense recognised in 2012 for appreciation rights/performance shares was $304,092 (2011: $701,914).

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	
			2012	2011	2012	2011	2012	2011
Jan'09	Dec'11	375,475	-	-	-	365,951	-	-
Jan'10	Dec'12	214,190	7,568	15,315	155,271	30,631	-	162,839
Jan'11	Dec'13	156,704	23,981	-	7,053	-	125,670	156,704
Jan'12	Dec'14	150,440	54,033	-	-	-	96,407	-
Jan'11	Dec'17	112,500	16,250	-	-	-	96,250	112,500
Jan'12	Dec'18	127,500	16,250	-	-	-	111,250	-

382,500 additional shares have been acquired for future grants.

Appreciation Rights

Grant Date	Vesting Date	Rights Granted	Rights lapsed during the year		Rights vested during the year		Rights available at the end of the year	
			2012	2011	2012	2011	2012	2011
Jan'09	Dec'11	888,324	-	-	-	888,324	-	-
Jan'10	Dec'12	357,873	-	-	357,873	-	-	357,873
Jan'11	Dec'13	282,258	-	-	-	-	282,258	282,258
Jan'12	Dec'14	396,825	-	-	-	-	396,825	-

20 Employee Benefits continued

Reckon Limited Employee Option Plans

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

Executive share option plan
The executive share option plan has been terminated.

Executive share option plan No. 2

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

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

Amounts receivable on exercise of any options are recognised as share capital. No options were exercised during the year. In 2011 options were exercised with an average exercise price of $0.72.

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

Performance Shares									
Grant date	Expiry date	Exercise Price	Options Initially Granted	Options lapsed during the year		Options exercised and shares issued during the year		Options vested and available at the end of the year	
				2012	2011	2012	2011	2012	2011
Dec 05	Dec 10	$0.722	144,445	-	-	-	12,666	-	-
				-	-	-	12,666	-	-
Number of shares that can be issued for unexercised options								-	-

21 Issued Capital

	2012 No.	2012 $'000	2011 No.	2011 $'000
Fully Paid Ordinary Share Capital				
Balance at beginning of financial year	132,839,672	17,476	133,384,060	18,833
Share buyback	(3,351,657)	-	(557,054)	(1,366)
Prior year share buyback transferred to reserves	-	1,366	-	-
Issue of shares	-	-	12,666	9
Balance at end of financial year	129,488,015	18,842	132,839,672	17,476
Less Treasury shares				
Balance at beginning of financial year	744,858	1,724	574,736	785
Shares purchased in current period	235,127	541	559,926	1,389
Shares lapsed	(5,584)	-	(15,315)	(28)
Lapsed shares utilised	-	-	22,093	38
Shares vested	(162,324)	(301)	(396,582)	(460)
Balance at end of financial year	812,077	1,964	744,858	1,724
Balance at end of financial year net of treasury shares	128,675,938	16,878	132,094,814	15,752

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 3,351,657 (2011: 557,054) shares were bought back at an average price of $2.27 (2011: $2.45). The shares bought back in the current year were cancelled immediately.

No options were exercised during the year. In 2011 12,666 options were exercised with an average exercise price of $0.72. Details of the options that were exercised and further details in respect of the share option plans are contained in Note 20 to the financial statements. Total consideration for options exercised during 2011 was $9,145.

	Consolidated 2012 $'000	Consolidated 2011 $'000
22 Reserves		
Foreign currency translation reserve		
Balance at beginning of financial year	(1,569)	(694)
Translation of foreign operations	186	(875)
Balance at end of financial year	(1,383)	(1,569)
Asset revaluation reserve		
Balance at beginning of financial year	(1,067)	-
Transfer to retained earnings	820	-
Fair value adjustment of financial assets	247	(1,067)
Balance at end of financial year	-	(1,067)
Share buyback reserve		
Balance at beginning of financial year	-	-
Share buyback	(7,612)	-
Prior year share buyback	(1,366)	-
Balance at end of financial year	(8,978)	-
Acquisition of non-controlling interest reserve		
Balance at beginning of financial year	-	-
Transfer from non-controlling interest	79	-
Increase in interest in nQueue Billback subsidiaries (note 29(d))	(4,496)	-
Fair value adjustment of Linden House option liability (note 15)	(564)	-
Balance at end of financial year	(4,981)	-
Share-based payments reserve		
Balance at beginning of financial year	556	631
Share based payment expense	248	375
Treasury shares vested/lapsed	(301)	(450)
Balance at end of financial year	503	556
	(14,839)	(2,080)

22 Reserves continued

Nature and purpose of reserves

(a) Foreign currency translation reserve

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

(b) Asset revaluation reserve

Fair value adjustments of financial assets are taken to the asset revaluation reserve.

(c) Share buyback reserve

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

(d) Share-based payments reserve

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

(e) Acquisition of non-controlling interest reserve

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

23 Retained Earnings

	Consolidated 2012 $'000	Consolidated 2011 $'000
Balance at beginning of financial year	36,621	31,156
Net profit	17,342	16,062
Transfer from the asset revaluation reserve	(820)	-
Dividends (Note 31)	(10,764)	(10,597)
Balance at end of financial year	42,379	36,621

	Consolidated 2012 Cents	2011 Cents

24 Earnings Per Share

	2012 Cents	2011 Cents
Basic earnings per share	13.4	12.1
Diluted earnings per share	13.3	12.0
Weighted average number of ordinary shares used in the calculation of basic earnings per share	129,533,443	132,586,637
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	130,345,520	133,331,495

25 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2012 (2011: Nil).

	Consolidated 2012 $'000	2011 $'000

26 Commitments For Expenditure

(a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of $nil as at 31 December 2012 (2011: $nil).

(b) Lease Commitments

	2012 $'000	2011 $'000
Operating Leases		
Within 1 year	2,697	2,559
Later than 1 year and not longer than 5 years	7,274	8,332
Later than 5 years	342	1,767
	10,313	12,658

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.

Name of Entity	Country of Incorporation	Ownership Interest 2012 %	2011 %

27 Subsidiaries

Parent Entity			
Reckon Limited	Australia		
Subsidiaries			
Reckon.com.au Pty Limited	Australia	100	100
Reckon Australia Pty Limited	Australia	100	100
Reckon Investment Centre Limited	Australia	100	100
Reckon Online Holdings Pty Limited	Australia	100	100
Reckon Pacrim Pty Limited*	Australia	-	100
Reckon Training Pty Limited*	Australia	-	90
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Advanced Professional Solutions Pty Limited	Australia	100	100
Advanced Professional Solutions Limited	New Zealand	100	100
Reckon Accountable Technology Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
Independent Corporate Services Pty Limited*	Australia	-	100
Quickdocs.com.au Pty Limited	Australia	100	100
nQueue Billback Australia Pty Limited	Australia	100	100
nQueue Billback Limited	United Kingdom	100	75
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	100	74
Linden House Software Limited (refer Note 29)	United Kingdom	50	-
Reckon Accounts Pte Limited	Singapore	100	-

* Subsidiaries deregistered in 2012

All shares held are ordinary shares.

	Consolidated	
	2012 $	2011 $

28 Related Party Disclosures

(a) Key Management Personnel Remuneration

	2012 $	2011 $
Short term benefits	3,653,731	3,522,881
Post-employment benefits	220,492	223,240
Share based payments	275,672	603,170
	4,149,895	4,349,291

The names of and positions held by the key management are set out in Note 28(d). Further details of the remuneration of key management are disclosed in the Directors' Report.

(b) Other Transactions with Key Management Personnel

There were no transactions with Directors and other key management personnel apart from those disclosed in this note and in Note 29(e).

(c) Other Related Party Transactions

Intuit Ventures Inc

Intuit Ventures Inc, a significant shareholder (11.5%) in Reckon Limited, provides the rights for Reckon to market and distribute Intuit software throughout Australia and New Zealand. In return for this, Intuit receives a royalty payment based on sales made throughout the territory. These royalties amounted to $5,322,372 (2011: $4,733,481) which is expensed in the month that the associated product was sold. The balance due at 31 December 2012 is $186,993 (2011: $158,786).

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

From a Reckon Limited persepective, it is business as usual until 14 February 2014, whereafter Reckon will enjoy royalty free rights to continue selling, and may independently develop the then current Intuit desktop technology and QuickBooks Hosted technology for a 100 year period, resulting in an annualised royalty saving of about $6 million. After 10 February 2014 Reckon will not have access to the Intuit brands.

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

28 Related Party Disclosures continued

d) Directors' and Key Management Equity Holdings

Options and Shareholding 2012[1]							
	Office	Shareholding at start of 2012	Shareholding at end of 2012[2]	Performance shares at start of 2012	Performance shares vested in 2012	Performance shares issued in 2012	Performance shares held at end of 2012
Greg Wilkinson	Deputy Chairman, Non-executive Director	7,450,000	7,450,000	0	0	0	0
Clive Rabie	CEO, Executive Director	10,508,000	10,508,000	0	0	0	0
Brian Coventry[3]	CEO, Professional Division	50,000	12,573	30,648	12,573	23,394	-
John Thame	Chairman,Non-executive Director	19,000	19,000	0	0	0	0
Myron Zlotnick	General Counsel & Company Secretary	95,974	123,001	105,625	27,027	46,787	125,385
Ian Ferrier	Non-executive Director	0	0	0	0	0	0
Chris Hagglund	Chief Financial Officer	255,073	296,289	140,398	41,216	58,226	157,408
Gavin Dixon[5]	CEO Business Division	290,284	264,724	81,917	39,514	37,039	0
Sam Allert[4]	CEO Professional Division	11,429	7,568	30,648	7,568	23,394	46,474
Richard Hellers	President & CEO nQueue Billback division	0	0	0	0	0	0

1. No options were issued in 2012.
2. Share holdings at the date of the Director's Report remain unchanged.
3. Mr Coventry's employment terminated on 31 December 2012 (41,469 performance shares lapsed).
4. Mr Allert commenced as CEO Professional Division effective from 1 October 2012 (previously MD APS Australia).
5. Mr Dixon's employment terminated on 31 March 2013 (79,442 performance shares lapsed).

28 Related Party Disclosures continued

Options and Shareholding 2011[1]	Office	Shareholding at start of 2011	Shareholding at end of 2011[2]	Performance shares at start of 2011	Performance shares vested in 2011	Performance shares issued in 2011	Performance shares held at end of 2011
Greg Wilkinson	Deputy Chairman, Non-executive Director	7,450,000	7,450,000	0	0	0	0
Clive Rabie	CEO, Executive Director	10,508,000	10,508,000	0	0	0	0
Brian Armstrong[2]	CEO, Professional Division	776,107	550,025	216,798	111,583	0	0
Brian Coventry	CEO, Professional Division	109,589	50,000	20,901	13,333	23,080	30,648
John Thame	Chairman,Non-executive Director	19,000	19,000	0	0	0	0
Myron Zlotnick	General Counsel & Company Secretary	50,215	95,974	107,084	47,619	46,160	105,625
Ian Ferrier	Non-executive Director	0	0	0	0	0	0
Chris Hagglund	Chief Financial Officer	162,454	255,073	155,749	72,619	57,268	140,398
Gavin Dixon	CEO Business Division	124,362	290,284	126,898	80,952	35,971	81,917
Richard Hellers	President & CEO nQueue Billback division	0	0	0	0	0	0

1. No options were issued in 2011.
2. Mr. Armstrong's employment ended on 31 December 2011 (15,315 performance shares lapsed).

	Consolidated 2012 $'000	2011 $'000

29 Notes to the Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2012 $'000	2011 $'000
Cash (i)	1,926	4,703
Bank overdraft	(494)	-
Balance at end of financial year	1,432	4,703

(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

	2012 $'000	2011 $'000
Profit after income tax	17,767	16,693
Depreciation and amortisation of non-current assets	9,823	9,108
Non-cash employee benefits expense – share based payment	248	375
Increase/(decrease) in current tax liability/asset	(1,246)	1,445
Increase/(decrease) in deferred tax balances	930	(548)
Unrealised foreign currency translation amount	44	18
(Increase)/decrease in assets net of acquisitions:		
Current receivables	(400)	26
Current inventories	(63)	(350)
Other current assets	(932)	(443)
Non-current receivables	(614)	(541)
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	153	(368)
Other current liabilities	(1,229)	1,815
Other non-current liabilities	(453)	(411)
Net cash inflow from operating activities	24,028	26,819

	Consolidated 2012 $'000	Consolidated 2011 $'000
29 Notes to the Statement of Cash Flows continued		
(c) Business acquired – Linden House		
Cash consideration	9,168	-
Less net cash acquired	(657)	-
	8,511	-
Fair value of option liability	10,262	-
	18,773	-
Fair value of assets acquired:		
Receivables	1,665	-
Intellectual property – customer contracts	1,826	-
Intellectual property – development of solution	987	-
Intellectual property – brand	562	-
Fixed assets	208	-
Payables	(492)	-
Hire purchase liabilities	(151)	-
Deferred tax liabilities	(875)	-
Deferred revenue	(2,161)	-
	1,569	-
Goodwill	17,204	-
	18,773	-

29 Notes to the Statement of Cash Flows continued

On 3 July 2012 Reckon Limited acquired an initial 50% interest in Linden House Software Limited together with options to take its total holding to 100%. The purchase consideration is made up of an initial payment of 6 million Pounds, with expected additional payments of 8 million Pounds. The additional payments are based on the performance of the business over the next 3 years. The total consideration of 14 million Pounds would equate to an approximate 5x multiple of forecast 2015 EBITDA. The acquisition was funded from existing cash reserves and debt facilities. Linden House develops and distributes a document management and portal solution under the brand Virtual Cabinet. Linden House Software Limited is incorporated in the United Kingdom. Refer Note 15 for disclosure relating to the recognition of the associated option liability. This is a non-cash transaction.

Goodwill in Linden House arose because the consideration paid/to be paid for the company effectively included amounts in relation to the benefit of expected revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable tangible assets.

Linden House has been consolidated on the basis of the existence of a substantive call option, which is effective at acquisition date, and which enables Reckon Limited to acquire the remaining interest in the company.

The initial accounting for the acquisition of Linden House has only been provisionally determined at the end of the reporting period.

Revenue and profit included in the Reckon Limited results from Linden House for the year is as set out in Note 33. Had this business been acquired on 1 January 2012, the revenue and profit would have been approximately double.

Business acquisition costs amounting to $173 thousand have been excluded from the consideration paid and have been recognized as an expense.

(d) nQueue Billback division minority interest acquired

Effective from 31 July 2012 Reckon Limited acquired the 26% remaining interest in the nQueue Billback division in the USA and the remaining 25% interest in nQueue Billback UK that it did not previously hold for cash consideration of $4,496 thousand.

(e) APS UK Division sold

Effective from 31 December 2012 the APS UK business has been sold to the previous managing director, Brian Coventry. Reckon will receive an ongoing revenue stream from royalties on sales under a licensing agreement. Revenue generated by the APS UK business in 2012 was $1,951 thousand, and a profit after tax of $502k. There is not expected to be any material change to the profit generated under the new arrangements.

30 Non Controlling Interest

	Consolidated 2012 $'000	Consolidated 2011 $'000
Interest in:		
Accumulated profits	-	203
	-	203

	Consolidated 2012 $'000	2011 $'000
31 Dividends – ordinary shares		
Final dividend for the year ended 31 December 2011 of 4.5 cents (2010: 4.5 cents) per share franked to 90% paid on 2 March 2012	5,945	5,968
Interim dividend for the year ended 31 December 2012 of 3.75 cents per share franked to 90% (2011: 3.5 cents) paid on 7 September 2012	4,819	4,629
	10,764	10,597
Franking credits available for subsequent financial years based on a tax rate of 30% (2011: 30%)	1,697	1,957

Refer to Note 34 for details of dividends declared post year end.

32 Financial Instruments

(a) Significant Accounting Policies

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

(b) Financial Risk Management Objectives

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

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

(c) Interest Rate Risk

The Group is exposed to interest rate risk on the cash held in bank deposits and on bank borrowings. Cash deposits of $1,926 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.8% (2011: 3.3%). Interest bearing borrowings by the consolidated entity at the reporting date were $10,994 thousand (2011:$nil). These variable rate borrowings during the year attracted an average interest rate of 7.5% (2011: 8.10%) on overdraft facilities and 5.1% on bank bill facilities (2011: 6.43%). 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 $45 thousand (2011: $23 thousand).

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

The maturity profile for the consolidated entity's cash ($1,926 thousand) and interest bearing borrowings ($10,994 thousand) that are exposed to interest rate risk is less than 1 year.

32 Financial Instruments continued

(d) Credit Risk

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

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

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

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

(e) Foreign Currency Risk

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

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

	Consolidated			
	Liabilities		Assets	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Euro	-	-	60	129

At 31 December 2012, if the Euro weakened against the UK Pound by 10% (being the relevant volatility considered relevant by management), with all other variables held constant the net profit of the consolidated entity would increase by $6 thousand (2011: $18 thousand). At 31 December 2012, if the New Zealand Dollar, US Dollar and UK Sterling weakened against the Australian Dollar by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by $271 thousand (2011: $95 thousand). This latter sensitivity relates to inter-group loan balances denominated in Australian Dollars, which are eliminated on consolidation.

In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year-end exposure does not necessarily reflect the exposure during the course of the year. The consolidated entity includes certain subsidiaries whose functional currencies are different to the consolidated entity presentation currency. The main operating entities outside of Australia are based in New Zealand, United States of America and the United Kingdom. These entities transact primarily in their functional currency and, aside from inter-group loan balances, do not have significant foreign currency exposures due to outstanding foreign currency denominated items. As stated in the consolidated entity's accounting policies per Note 1, on consolidation the assets and liabilities of these entities are translated into Australian Dollars at exchange rates prevailing at year end.

32 Financial Instruments continued

The income and expenses of these entities is translated at the average exchange rates for the year. Exchange differences arising are classified as equity and are transferred to a foreign exchange translation reserve. The consolidated entity's future reported profits could therefore be impacted by changes in rates of exchange between the Australian Dollar and the New Zealand Dollar, and the Australian Dollar and the US Dollar and the Australian Dollar and the UK Sterling.

(f) Liquidity

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

(g) Capital risk management

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

(h) Fair Value

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets, is determined with reference to quoted market prices. The fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions. The carrying amount of financial assets and financial liabilities recorded in the financial report approximates their respective fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

33 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 division	**Professional division**
nQueue Billback division	**Virtual Cabinet division**

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

The principal activities of these divisions are as follows:

- Business division – development, distribution and support of personal financial and accounting software, as well as related products and services to professional partners. Products sold in this division include Reckon Accounts, (which includes the product range formerly named Quicken and the QuickBooks range which will be renamed Reckon Accounts in April 2013), Reckon Docs and Reckon Elite.
- Professional division – development, distribution and support of practice management, tax, client accounting and related software under the APS brand.
- nQueue Billback division – distribution and support of cost recovery, cost management and related software.
- Virtual Cabinet division – development, distribution and support of document management and documentt portal products.

	Consolidated	
	2012 $'000	2011 $'000

33 Segment Information continued

Segment revenues and results

Operating revenue

	2012 $'000	2011 $'000
Business division	58,280	55,849
Professional division	25,095	23,209
nQueue Billback division	10,855	11,186
Virtual Cabinet division	2,376	-
	96,606	90,244
Other revenue	159	486
Total revenue	**96,765**	**90,730**

	Consolidated					
	2012 $'000 EBITDA	2012 $'000 D&A	2012 $'000 NPBT	2011 $'000 EBITDA	2011 $'000 D&A	2011 $'000 NPBT
Business division	21,337	(2,478)	18,859	20,613	(2,205)	18,408
Professional division	12,361	(5,347)	7,014	10,675	(4,888)	5,787
nQueue Billback division	4,596	(1,698)	2,898	5,052	(1,459)	3,593
Virtual Cabinet division	499	(301)	198	-	-	-
	38,793	**(9,824)**	**28,969**	**36,340**	**(8,552)**	**27,788**
Central administration costs			(4,213)			(4,067)
Premises relocation costs			(492)			(2,352)
Acquisition costs			(173)			-
Litigation settlement			-			542
Other revenue			159			486
Finance costs			(311)			(168)
Profit before income tax			**23,939**			**22,229**
Income tax expense			(6,172)			(5,536)
Profit for the year			**17,767**			**16,693**

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.

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

33 Segment Information continued

The Professional division in the 2011 annual report, included nQueue Billback Australia. Following the acquisition of the remaining minority interest in the rest of the nQueue Billback division in the current year, management responsibility for the Australian business has been transferred to the nQueue Billback division management team. The 2011 results have been restated to reflect this change.

No single country outside of Australia contributed more than 10% of Group revenue for either 2012 or 2011.

	Assets		Liabilities		Additions to non-current assets	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Segment assets and liabilities						
Business division	25,511	32,799	20,724	18,677	3,713	2,679
Professional division	27,554	34,239	4,908	5,148	5,015	5,340
nQueue Billback division	15,291	11,316	7,019	4,033	1,566	1,170
Virtual Cabinet division	23,341	-	14,628	-	21,522	-
Corporate division	-	-	-	-	-	7,268
Total of all segments	91,697	78,354	47,279	27,858	31,816	16,457
Eliminations	(3,342)	(7,490)	(3,342)	(7,490)	-	-
Consolidated	88,355	70,864	43,937	20,368	31,816	16,457

	Revenue from external customers		Non-current assets	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(b) Geographical information				
Australia	77,223	74,291	38,826	42,703
Other countries (i)	19,383	15,953	34,869	13,784
	96,606	90,244	73,695	56,487

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

	Consolidated	
	2012 $'000	2011 $'000

33 Segment Information continued

(c) Segment revenues

External sales

Business and wealth management products and services	52,152	49,859
Accounting industry products and services	33,599	29,199
Legal industry products and services	10,855	11,186
	96,606	90,244

34 Subsequent Events

Subsequent to the end of the financial year:

Share buy back

On 5 February 2013 the Board of Directors recommended to continue the on-market share buyback of not more than 10% of the shares in the Company.

Dividend

The Board has declared a dividend of 4.75 cents per share to shareholders on 5 February 2013. The dividend will be 90% franked. The record date for the dividend is 15 February 2013. The aggregate amount of the proposed dividend expected to be paid on 1 March 2013 out of retained profits at 31 December 2012, but not recognised as a liability at the end of the year is $6,112 thousand. The impact on the franking account balance of unrecognised dividends is $2,357 thousand.

35 Company information

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

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

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

The financial report was authorised for issue by the directors on 25 March 2013.

Additional information as at 8 March 2013

(Unaudited)

Twenty Largest Holders of Quoted Equity Securities

Ordinary Shareholder	Number	Percentage
1. National Nominees Limited	16,400,431	12.67
2. Intuit Ventures Inc	14,828,304	11.45
3. RBC Investor Services Australia Nominees Pty Limited	13,980,368	10.80
4. HSBC Custody Nominees (Australia) Limited	10,471,831	8.09
5. Gregory John Wilkinson	6,147,800	4.75
6. DJZ Investments Pty Limited	4,690,000	3.62
7. Aust Executor Trustees SA Ltd	4,513,690	3.49
8. UBS Nominees Pty Ltd	4,349,615	3.36
9. Mr Clive Rabie & Mrs Kerry Rose Rabie	4,285,611	3.31
10. Citicorp Nominees Pty Ltd	3,849,651	2.97
11. J P Morgan Nominees Australia Limited	3,525,457	2.72
12. Citicorp Nominees Pty Limited	2,452,859	1.89
13. BNP Paribas Noms Pty Ltd	1,976,028	1.53
14. Mr Stephen James Rickwood	1,601,062	1.24
15. Mr Clive Alan Rabie	1,532,389	1.18
16. Rawform Pty Ltd	1,302,200	1.01
17. Mr Philip Ross Hayman	1,053,636	0.81
18. UBS Nominees Pty Ltd	1,001,441	0.77
19. Reckon Australia Pty Ltd	960,241	0.74
20. Equity Trustees Limited	957,911	0.74
	99,880,525	**77.13**

Number of Holders of Equity Securities

Ordinary Share Capital

129,488,015 fully paid ordinary shares are held by 3,593 individual shareholders as at 8 March 2013.
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 78.

Distribution of Holders of Equity Securities

As at 8 March 2013

Number of Ordinary Shares	Number of Shareholders
1 – 1,000	862
1,001 – 5,000	1,690
5,001 – 10,000	523
10,001 – 100,000	470
100,001 and over	48
Total	**3,593**

Substantial Shareholders

As at 8 March 2013

(a) From Twenty Largest Holders of Quoted Equity Securities

	Ordinary Shares (Number)	Ordinary Shares (Percentage)
National Nominees Limited	16,400,431	12.67
Intuit Ventures Inc	14,828,304	11.45
RBC Investor Services Australia Nominees Pty Limited	13,980,368	10.80
Mr Clive Rabie & Mrs Kerry Rose Rabie	10,508,000	8.11
HSBC Custody Nominees (Australia) Limited	10,471,831	8.09
Gregory John Wilkinson	7,450,000	5.76

(b) As Disclosed to ASX

	Ordinary Shares (Number)	Ordinary Shares (Percentage)
Perpetual Limited and Subsidiaries	16,496,090	12.74
National Nominees as Custodian for Unisuper Ltd	6,488,557	5.01

Additional information as at 8 March 2013

(Unaudited)

Principal Registered Office

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

Share Registry

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

Auditors

Deloitte Touche Tohmatsu
225 George Street
Sydney NSW 2000.

Principal Administration Office

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

Stock Exchange Listings

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

Company Secretary

Mr Myron Zlotnick.

Annual General Meeting

The Annual General Meeting for Reckon Limited will be held on Thursday 23 May 2013 at 10am at Level 12, 65 Berry Street, North Sydney, NSW.

If you are unable to attend, you are invited to complete the Proxy Form included with your Notice of Meeting. The completed Proxy Form must be received no later than 48 hours before the Annual General Meeting.

Important Information – Corporate Notices

Securityholders will be aware that recent legislative changes have impacted the options to receive statutory corporate notices and reports. In the interest of cost saving and the environment (every little bit helps), we encourage you to opt in to receive all notices and reports electronically.

TO RECEIVE ALL NOTICES AND REPORTS IN ELECTRONIC FORMAT, please go to www.computershare.com.au and follow the prompts to register.

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
- Click on 'Investor Centre'
- Select 'Update my details' tab and click on 'Communications Options'
- Type 'RKN' in the Company Code field
- You will need to enter your personal security information
  - Holder Identification Number (HIN) or Securityholder Reference Number (SRN);
  - family or company name, postcode or country (if outside Australia); and
  - click 'Submit'
- After you have entered your email address and selected the publications you wish to receive, a confirmation email will be sent to you
- Should you have any further enquiries, contact the Registry on 1300 855 080 or +61 3 9415 4000 (if outside Australia).

For web enquiries, select the 'Contact Us' tab on the top of the 'Investor Centre' page.

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

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