



Reckon<sup>®</sup>

2016 | Annual Report



# Reckon Limited Annual Report

ABN 14 003 348 730

for the Financial Year Ended 31 December 2016

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# Message from the Chairman and Group CEO

2016 was another important year for Reckon Limited.

We are seeing results that confirm our commitment to the strategies we have previously announced.

To repeat what was articulated last year, we committed to three pillars of strategy:

- investing in technology,
- expanding products and territory, and
- preserving existing profitable businesses.

Across all key performance metrics we have delivered according to expected performance. This is especially encouraging because we operate in a transition phase as we continue to move to the cloud and confront a fiercely competitive market.

Group	Non IFRS*			
	2016	2015	Amount Change	% Change
Revenue	\$97.8 million	\$91.4 million**	\$6.4 million	7%
Underlying EBITDA	\$40.5 million	\$39.2 million	\$1.3 million	3%
Underlying NPAT	\$20.8 million	\$19.3 million	\$1.5 million	8%

\* Refer to page 11 for an IFRS reconciliation.

\*\*The revenue results for 2015 have been adjusted to remove the pass through revenue for ASIC fees collected in the Reckon Docs business, to align with the accounting treatment in 2016.

The above results for EBITDA and NPAT exclude the impact from net costs associated with investment in sales, marketing and development/technology primarily in the Reckon One (Australia, New Zealand and UK) and Document Management (Australia, New Zealand and USA) growth markets.

Our net development spend of \$22.8 million was also in line with expected expenditure in the range of \$23 million to \$25 million.

Generally across all segments of the group we have seen good revenue growth; growth in online products; improvements in subscription revenue; and customer growth across all divisions.

Our customer base is strongly diversified and has serious scale. For example in the Business Group we have over 800,000 registered users who have relied on our solutions. In the Document Management Group we have over 51,000 paying users who share documents with over 617,000 users through the online portal. And in the Practice Management Group we have 70 of the top 100 accounting firms deploying our solutions.

This means that the underlying business remains sound while we pursue our growth objectives in new markets and in the cloud.

Reckon One, our cloud based small business accounting solution, is growing well. Customer feedback about the product has been overwhelmingly positive. Its unique modular approach which is a strong value for money proposition is a strong competitive edge over our rivals whose pricing cannot compete. We see great growth potential in this product.

In the Reckon APS part of our Practice Management Group we continue to add to our list of blue chip accounting firms at a very encouraging rate of growth.

The Document Management Group has shown strong growth in overseas markets.

Shareholders are urged to refer to our roadshow slides which we presented to the market in early February for the detail about our performance. These are available on the ASX website as well as on the investor section of our website.

If we look at the collective performance of the group we believe there is much to be proud of.

It seems that the market, however, does not always see it that way. Our largely realised ambitions of building a truly integrated set of solutions for professionals and small business have created a diverse and complicated business. It may be that the true value of the sum of the parts is not reflected in the perception of the whole of the business.

Against that background we have continued to explore other opportunities to unlock shareholder value.

On 17 March 2017 we announced an exciting opportunity to unlock value from our diverse range of operations.

At the date of that announcement it was proposed to de-merge Reckon's Document Management segment (representing approximately 15% of group turnover) under an independent company with shares admitted to trading on the AIM Market of the London Stock Exchange (AIM), "Document Management Newco".

By the time this Annual Report reaches you there may have been developments regarding this proposal that amend what was announced and we urge you to consult our ASX announcements to check for any updates.

It is our opinion that this opportunity can help to:

- Place Reckon in a strong position to move forward and focus on its strategy in the Business and Practice Management segment and obtain the benefit of improved cash flow by the removal of the development capital and new market costs of the Document Management segment;
- Free the Document Management segment to pursue an independent strategy to develop new global market leading document management offerings, building on the existing customer base of the Virtual Cabinet and SmartVault businesses;
- Simplify a diverse business portfolio and set a base to unlock value;
- Allow Reckon to take advantage of investment in cloud based products and focus on domestic activities while the Document Management segment will focus on overseas activities where the bulk of the potential market is.

It is proposed that every Reckon shareholder (other than those in certain overseas jurisdictions) will receive pro rata Document Management Newco shares for Reckon shares held by way of a dividend in specie such that after the de-merger and admission to trading on AIM, shareholders will own shares in both companies.

In addition it is intended to offer Reckon shareholders a pro rata opportunity to participate in a capital raising in Document Management Newco just prior to AIM admission to provide the Document Management business with funding to develop its cloud based secure information communication management products.

Members of the Reckon board, including the Chairman, the Deputy Chairman, and the Group CEO have indicated their confidence and commitment to this proposal by declaring their intention to participate in the capital raising.

At the time of this message these plans are preliminary and highly conditional, including subject to due diligence and any necessary regulatory approvals. The ASX has indicated that shareholder approval is not required.

We will keep all shareholders updated on material progress of this process.

This is an exciting period for us as we embark on a new strategic direction.

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



**Ian Ferrier**  
Chairman



**Clive Rabie**  
Group CEO

# Directors' Report

The Directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2016

## **Ian Ferrier AM FCA**

Independent Non-Executive Director, Independent Non-Executive Chairman

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

## **Greg Wilkinson**

Founder, Independent Non-Executive Deputy Chairman

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

## **Christopher Woodforde B Comm LLB**

Independent Non-Executive Director

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

**Clive Rabie**

Group Chief Executive Officer

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

**Myron Zlotnick LL.M., GCertAppFin  
General Counsel and Company Secretary**

Myron Zlotnick has over 20 years experience as a legal practitioner, general and corporate counsel, and as a director of companies in the information, communications and technology sector.

# Directors' Report (continued)

## Review of Operations and Statement of Principal Activities

### Summary

In 2016 Reckon Limited organised its activities into three operating and reporting segments: a Business Group, a Document Management Group, and a Practice Management Group.

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

The Document Management Group develops, sells and supports document management and document portal products to a wide variety of clients under the Reckon Virtual Cabinet and Reckon SmartVault brands.

The Practice Management Group develops, supplies and supports accounting practice management, tax compliance and allied software under the Reckon APS brand to larger professional accounting firms, and under the Reckon Elite brand to smaller professional accounting firms. The Practice Management Group also supplies and supports company secretarial services such as company incorporations; domain registrations; SMSF documentation and ASIC compliance management; and other documentation for human resources needs, under the Reckon Docs brand. This Group also supplies software solutions to legal firms and corporations for revenue management, expense management, print solutions, business process automation, business intelligence, document service automation, scan and document management under the Reckon nQueue and Reckon Billback brands.

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

### Business Group

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

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

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

One of the fastest growing products in the Reckon Accounts suite remains Reckon Accounts Hosted, a convenient secure online accounting software solution that very closely mimics the Reckon Accounts business range desktop package.

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

### Document Management Group

The Document Management Group provides software and support services for accountants, lawyers and businesses for document management and document portal solutions.



The Document Management Group currently operates under the Virtual Cabinet and SmartVault brands in Australia, New Zealand, USA and United Kingdom.

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

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

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

## **Practice Management Group**

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

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

Reckon has committed several years of research and development to delivering unique integrated practice software to work off a single platform, offering all its solutions under the collective Reckon APS suite. The suite comprises several integrated modules for several business critical functions in professional firms: Practice Management (PM); Business Intelligence and Reporting (PIQ); Document 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); SyncDirect and others.

The Desktop Super business was sold in 2016.

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

Reckon acquired cloud based technology timesheets and time cost reports which will be included in later offerings.

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

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

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

# Directors' Report (continued)

The development of a scan solution marked a shift from standalone cost recovery, expense management software towards a closer integration with document management and practice management.

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

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

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

## **Development and Software that Connects**

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

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

## Results of Operations

### Results Headlines (Non-IFRS)

- Revenue was up 7% to \$97.8 million from \$91.4 million.
- Underlying EBITDA was up 3% to \$40.5 million from \$39.2 million.
- Underlying NPAT attributable to owners of the parent was up 8% to \$20.8 million from \$19.3 million.

The revenue results for 2015 have been adjusted to remove the pass through revenue for ASIC fees collected in the Reckon Docs business, to align with the accounting treatment in 2016.

The above results for EBITDA and NPAT also exclude the impact from net costs associated with investment in sales, marketing and development/technology primarily in the Reckon One (Australia, New Zealand and UK) and Document Management (Australia, New Zealand and USA) growth markets.

	2016 \$m	2015 \$m
IFRS EBITDA	35.3	36.6
New market expenditure	5.2	2.6
EBITDA - Underlying business	40.5	39.2

	2016 \$m	2015 \$m
IFRS NPAT attributable to owners of the parent	11.0	14.6
After tax effect of new market expenditure*	9.8	4.7
NPAT - Underlying business	20.8	19.3

\* At effective tax rate.

The company declared a total dividend of 5 cents per share for the 2016 financial year (final dividend of 3 cents per share and an interim dividend of 2 cents per share) down 31% from 7.25 cents per share in 2015. This reduction in dividend remains largely a consequence of the company's shift in strategy to invest in technology and new markets. The company has a dividend reinvestment plan in place but it does not apply to the final dividend.

# Directors' Report (continued)

## Revenue Drivers

Generally group revenue was impacted:

- positively by strong volume growth in seats and online users
- positively by strong new customer growth
- positively by new markets for Document Management
- positively by growth from online products in the Business Group
- positively by subscription revenue
- negatively by a decline in Reckon Docs revenue
- negatively by the sale of the Desktop Super business
- negatively by currency

In the Business Group, by the end of the first quarter of 2016 the company had substantially completed the strategy to shift the revenue model for sales from upfront once off purchases to a subscription revenue model.

Subscription revenue in the Business Group for 2016 was \$25.4 million, up 13% on 2015 from \$22.5 million. Subscription revenue in the Business Group now comprises 81% of available Business Group revenue compared to 72% in 2015.

In the cloud market, demand for online accounting software is driving good growth. The Business Group now has 39,000 users which is 18% annualised growth over 2015. This represented 23% in revenue growth. 35% of all available revenue in the Business Group is from cloud solutions.

These gains in the Business Group are an encouraging sign in a group where overall revenue growth was flat, \$35.5 million in 2016 compared to \$35.4 million in 2015. Revenue declined by 2% in the first half of 2016 due to the move to subscription revenue but grew by 3% in the second half.

Revenue growth for the Document Management Group was driven by organic growth of 7,000 new paying users. This represents an annualised underlying growth rate of 15% on 2015. The revenue for 2016 was \$14.8 million, up 70% on underlying revenue of \$8.7 million for 2015. This growth is also a result of increasing cross sales into the Practice Management Group customer base in Australia and New Zealand as well as the acquisition of SmartVault, which then exceeded growth expectations.

Underlying revenue for the Practice Management Group was up 4% to \$46.8 million from \$45 million in 2015, with the software component of this group growing by 6%. The key revenue drivers here were 8% growth in seats added across the Reckon APS suite and good growth in large size customers in both Reckon APS and Reckon nQueue in the USA.

As with the Business Group, the strategy to move from an upfront once off software sales model to a subscription based model continues to bear success. It is expected that there will always be a residue of upfront and service revenue in the Practice Management Group but for 2016 subscription revenue represented a healthy 83% of available revenue.

The Reckon Docs content business was weaker in 2016 and strategy has been reset to attempt to rectify this.

## Underlying EBITDA

The underlying EBITDA delivered by the businesses in the group was up 3% to \$40.5 million from \$39.2 million in 2015.

As mentioned above, the profitability of the group was impacted by investment in sales and marketing primarily in Reckon One (in Australia, New Zealand and the UK) and Document Management (in Australia, New Zealand and USA) growth markets.

In the Business Group, underlying EBITDA was 4% up on 2015. If investment in sales and marketing in Australia, New Zealand and UK for Reckon One are taken into account, then EBITDA is only marginally up. However, EBITDA for the second half of 2016 was up 8% on the second half of 2015. This is attributable to revenue growth with the transition to subscription revenue complete.

In the Document Management Group, underlying EBITDA increased by 11% on 2015 from \$4.2 million to \$4.7 million. Once again sales and marketing investment in the Australian, New Zealand and USA markets impacted EBITDA adversely.

In the Practice Management Group, underlying EBITDA increased by 3% from \$19.4 million to \$19.9 million.

## **NPAT**

Underlying business NPAT grew from \$19.3 million in 2015 to \$20.8 million in 2016. As with the EBITDA headline result, NPAT growth was negatively impacted by the growth investments.

Profitability was also impacted by higher amortisation due to development investment in Reckon One and Document Management growth products.

## **Cash Flow**

As a consequence of the investment in new markets the company's operating cash flow decreased from \$33.5 million to \$29.7 million. In addition increased net development spend (\$22.8 million in 2016 compared to \$19.6 million in 2015) as well as the cost of acquiring SmartVault (\$5.8 million) but offset by the proceeds of the sale of Desktop Super (\$1.3 million) further impacted cash flow in 2016.

## **EPS**

As a result of the decline in NPAT, premised on growth investment in 2016, basic EPS consequently declined 25% from 13.1 cents per share to 9.8 cents per share.

## **Dividends**

On 14 February 2017, the board declared a final dividend of 3 cents per share (unfranked) payable to shareholders recorded on the company's register as at the record date of 22 February 2017.

The dividend reinvestment plan does not apply to the final dividend.

## **Significant Changes in State of Affairs**

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

# Directors' Report (continued)

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

Last year the company reported in detail on the outcome of a strategic review undertaken in late 2015.

In summary, the outcome of that review revealed that focus should be given to:

- continued investment in scaling proven international businesses (especially nQueue and Virtual Cabinet);
- consolidating Reckon APS' market leadership by continuing to provide high-value additional modules and functionality, including further "cloudification" of products;
- strengthening product offerings for document management in the USA market and gain a point of access to the valuable accountants market;
- accelerating investment in targeted development priorities to be undertaken over 2016 and 2017, especially:
  - Reckon One;
  - "Cloudification" of Reckon APS functionality; and
  - The integration of SmartVault / Virtual Cabinet onto one platform.

Specifically in relation to the last bullet point above regarding the future plans for the Document Management business the company announced on 17 March 2017 a proposal to de-merge Reckon's Document Management segment (representing approximately 15% of group turnover) under an independent company with shares admitted to trading on the AIM Market of the London Stock Exchange (AIM).

These plans place Reckon in a strong position to move forward and focus on its strategy in the Business and Practice Management segment and obtain the benefit of improved cash flow by the removal of the development capital and new market costs of the Document Management segment.

In addition, the Document Management segment is freed up to pursue an independent strategy to develop new global market leading document management offerings, building on the existing customer base of the Virtual Cabinet and SmartVault businesses.

As a result a complex and diverse business portfolio is also simplified with a base set to unlock shareholder value.

Reckon will take advantage of investment in cloud based products and focus on domestic activities while the Document Management segment will focus on overseas activities where the bulk of the potential market is.

At the time of the writing of this Annual Report, these plans are preliminary and conditional, including subject to due diligence and any necessary regulatory approvals. The ASX has indicated that shareholder approval is not required.

Success in pursuing strategic ambitions is subject to certain risks. In general terms the businesses will always be subject to domestic macro-economic pressures to the extent that these may or may not impact the confidence of small to medium sized businesses. The markets in which we operate are vigorously competitive and subject to disruption and price pressure. The competitive landscape does show the emergence of disruptive operators in the cloud market, but the scale of yet to be acquired customers in all groups is large. Ambitions to expand overseas and product development carry execution risks. And, operationally, any business of this nature is subject to service interruption, infrastructure failure or data breaches.

The main risk arising from the company and Group's financial instruments are currency risk, credit risk, equity price risk, liquidity risk and interest rate risk. See note 28 to the Financial Statements for further detail of these risks.

Reckon undertook a review of its information security practices using ISO27001 Information Security Management

System (ISMS) as a guide to provide an assurance framework for our information security practices. At the end of 2015 this review was completed and in 2016 a lengthy and ongoing process to implement relevant changes was commenced.

## **Matters Since the End of the Financial Year**

On 17 March 2017 the company announced a proposal regarding the de-merger of the Document Management business from the Reckon group as described above.

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

# Remuneration Report (Audited)

## 1 Introduction

Reckon continues to undertake a process of transition in a fiercely competitive market which is expected to require some years to complete. The transition may involve continued investment in technology and new markets as well as possible changes to the group's management and operating structure. However, the Board is confident that the right team of the right calibre and with the right talent to execute the transition is largely already in place. It should also be noted that externally fuelled speculation about the Company and its future during the late FY15 year led to some significant volatility in the share price in early FY16. These represent challenging conditions in which to motivate, retain and attract senior executives, and indeed directors (together, KMP), appropriate to the needs of the Company.

At the AGM held in 2015 (in respect of FY14), the Company received a second strike against the Remuneration Report but no spill meeting was required by shareholders to be convened. Following this the strikes were "re-set", however at the AGM held in 2016, the Company received a strike against the Remuneration Report (in respect of FY15). Consequently the Board has invested significant time and effort to understand those areas of the Remuneration Report and of the Company's remuneration practices, which are seen to be causing the strikes, as it did in the prior years. As part of its efforts, the Board has refreshed the governance of remuneration by appointing its newest director, Chris Woodforde, to the role of Chair of the Remuneration Committee. In any event it is good governance to split the role of Chairman of the Board from Chair of the Remuneration Committee and hence Mr Ferrier, the Chairman of the Board has stepped aside as Chair of the Remuneration Committee. The Remuneration Committee through the new Chair has spent time understanding the concerns of external stakeholders including shareholder and proxy advisors, understanding the history of current remuneration practices implemented by the Company, and current circumstances and future needs of the Company, to gain a complete understanding of the issues that need to be considered in the oversight of KMP remuneration.

One of the most prominent issues that was raised, was the design and implementation of the long term incentive (LTI) scheme. In response, the Board has sought external advice from independent KMP remuneration experts to better understand the issues, and to assist the Company in re-designing the LTI. The Board has also clearly appreciated that despite compelling internal and competitive factors to do so, shareholders saw the application of the Board's discretion in FY13 and partially in FY14 to trigger vesting of the previous LTI when shareholders had not benefitted as inappropriate. The Board has discussed the need to limit the circumstances in which the application of discretion would be considered. The board went to great lengths to explain the context for exercising the discretion and believe it was rational and justified in the circumstances at the time. It was also understood that the vesting hurdles for the LTI were seen as too low, relative to practices evident in the market and the Board has resolved to be clearer in its communication to the market regarding the setting of performance conditions in the Company's circumstances, as part of implementing the new LTI.

Some external stakeholders also reflected the view that, at the time and given the changes to the Company's market value, fixed remuneration was high relative to the market. While this may have been the case under their particular methodology at that point in time, at the time that KMP remuneration was set, it was set with reference to measures which the board felt were reasonable. The Board asks that shareholders consider that when the Company's market value is lower than at the time when fixed remuneration was determined, any pay cut would present a material and unacceptable risk of loss of KMP, and is not a practical solution. Instead, the Board has virtually frozen fixed pay or provided only modest increases except where remuneration was below market levels required to retain KMP or to provide compensation commensurate with responsibility. It should also be noted that several of the KMPs have been employed for many years and were instrumental in the implementation of significant strategies to guide the Company through adversity in the early 2000's.

Given the significant efforts of the Board to review and improve remuneration governance and practices, and to consult with stakeholders and engage with their views, as well as noting the excellent performance of the Company in the lead-up to the coming AGM, it is hoped that shareholders and their representatives will support the Remuneration Report resolution at this AGM and avoid the need for another vote to consider whether a spill meeting should be held.



## 2 Persons Covered by this Report

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

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

### Non-executive Directors

- Mr Ian Ferrier, independent non-executive director since 17 August 2004
  - Chairman of the Board since 1 July 2015
- Mr Greg Wilkinson, director since 19 July 1999
  - Deputy Chairman since 1 February 2006
  - Risk and Audit Committee member since 1 February 2010
  - Remuneration Committee member since 1 December 2011
- Mr Chris Woodforde, Independent non-executive director since 1 July 2015
  - Remuneration Committee Chair since 1 January 2016
  - Risk and Audit Committee Chairman since 1 January 2016.

### Senior Executives Classified as KMP

- Mr Clive Rabie, COO from 1 January 2001, Executive Director since 1 January 2005, group CEO from 22 February 2006
- Mr Chris Hagglund, Group Chief Financial Officer (CFO) since 1 October 2004
- Mr Myron Zlotnick, General Counsel and Company Secretary since 1 October 2002
- Mr Sam Allert, MD Business and Accounting Group ANZ since 1 October 2012 and
- Mr Daniel Rabie, Chief Operating Officer since 27 July 2015.

## 3 Context of and Changes to KMP Remuneration

### 3.1 Context of FY16 Remuneration Policies and Practices

The KMP remuneration structures that appear in this report are largely those that prevailed over FY16, as is required by law. These structures were implemented as part of a decision making process, mainly driven by the budget setting process and cost to company, that was undertaken in previous years.

Mindful of shareholder response as above, the Board will continue to review its practices and policies in the future.

The following outlines important context for the decisions that were made during FY15 to determine remuneration for FY16, as well as relevant context that emerged during FY16:

# Remuneration Report (Audited) (continued)

- The Board sought and received feedback on both stakeholder and independent consultant views of KMP remuneration governance and practices, noted both above, and in more detail below,
- Market capitalisation is one of the factors that influences external assessments of the appropriateness of remuneration; it is understood that external groups tend to see it as the primary indication of the size and status of the Company, and the field in which the Company is competing for talent. While Reckon does not subscribe to this view exclusively and instead considers a broad range of factors that drive competition for talent in different parts of the Company, it is acknowledged that it must be a consideration when communicating with stakeholders,
- Historically remuneration was set at times when the market capitalisation of the Company was higher than it was during FY16, and at present, and at a time when retaining talent for a company in a competitive arena was important,
- The Company is going through a significant period of transition, in line with its current strategy of:
  - Investing in new technology;
  - Expanding products and territories;
  - Preserving and building on existing profitable businesses,
- and this means that all of the executive team is heavily involved in more than business as usual to ensure that the requirements of the current strategy are fulfilled.

## 3.2 Remuneration Matters Identified and Adjustments in Response During FY16

Following the 2015 AGM it was brought to the attention of the Remuneration Committee that some stakeholders, most notably the proxy advisors, had some questions or concerns regarding remuneration practices that were not clear from the Annual Report or Notice of Meeting. A summary of these concerns has been compiled and is available on request to the Company Secretary.

**In response to these concerns during FY16 the following are the most significant changes made to remuneration for KMP:**

- The Board sought the views of an independent external remuneration consultant and governance advisor in relation to Reckon's incentive framework, policies, practices and procedures,
  - The consultant identified areas where the Company's policies and practices departed from standard/common market practices,
  - The consultant and the Board spent significant time discussing the merits of standard market approaches, and of more tailored approaches, given the circumstances of the Company at the time,
  - The Board determined to make adjustments to the incentive arrangements that were a balance of market standard, and tailored practices, so as to best meet the needs of the Company in its current circumstances, while also improving alignment with typical stakeholder expectations,
- The Board sought the views of an independent external remuneration consultant and governance advisor in relation to Reckon's Remuneration Report disclosure,
  - The consultant recognised that there were many areas of the Company's Remuneration Report that were highly transparent and exceeded typical disclosure levels, and
  - That there were some areas that could be improved in terms of explaining the context, rationale and approach to KMP remuneration, and some additional details that would assist shareholders to understand the Company's remuneration policies, procedures, and practices with more clarity, and
  - The recommended changes have been adopted herein, and the Board invites feedback regarding the changes to disclosure,

- Changes to the design of the LTI plan were agreed to improve alignment with external stakeholder expectations, while still meeting the specific needs of the Company in its current circumstances, for offers from FY16 onwards,
  - Replacement of the single ASX 300 relative TSR condition (used for 2015 - 2017) with a combination of:
    - TSR relative to the ASX 300, with a 50% weighting, and
    - EPS Growth relative to target, with a 50% weighting,
  - Adjustment of the TSR vesting scale to remove any vesting at below-market (index) performance, in response to stakeholder feedback,
  - Continued adoption of minimum Measurement Periods of 3 years prior to vesting for future grants of LTI,
    - However it should be noted that as part of a transitional arrangement to phase in the new LTI as grants of legacy equity phase out and to smooth out share price volatility in early FY16 (over which management had no control) and which would have set starting TSR levels at unrealistic/unachievable levels, offers in relation to the FY16 LTI were composed of three tranches:
      - One tranche with a Measurement Period from 1 January 2016 to 31 December 2016, linked to the EPSG measure only, and
      - One tranche with a Measurement Period from 1 January 2017 to 31 December 2018, linked to EPSG, and
      - One tranche with a Measurement Period from 1 January 2017 to 31 December 2018, linked to the TSR measure (equal weighting between the two measures in relation to tranches 2 and 3).
        - In total, the offer covers a three year Measurement Period, and no vesting occurs prior to the elapsing of three years, despite earlier performance testing for the first tranche,
        - Refer to the diagram on page 27,
    - It is recognised that this first grant will not strictly meet the expectation that Measurement Periods are a minimum of three years prior to vesting, however, given the way that legacy LTI/equity grants are phasing out through FY16 and FY17 it was deemed necessary to modify the Measurement Periods under the first grant of the new LTI to try to achieve some stability in the opportunity for equity/LTI to be earned (if not vested) as the new plan is phased in (i.e. not to penalise executives for the change in the approach), in any case there is no vesting before the passing of three years. The only quirk for the initial grant is the disproportionate weighting given to EPS in the first year to deal with the share price volatility of early FY16.

The Board of Reckon asks shareholders to consider the significant efforts of the Board to improve remuneration governance, practices, disclosure and outcomes in response to feedback from stakeholders. The Board is confident that the company has come a long way in improving its Remuneration Report and will endeavour to continue to do so.

# Remuneration Report (Audited) (continued)

## 4 Overview of Reckon's Remuneration Governance Framework & Strategy

The Company seeks input regarding the governance of KMP remuneration from a wide range of sources, including:

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

The following outlines Reckon's remuneration governance framework.

### 4.1 Remuneration Committee

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

The Remuneration Committee is comprised of three non-executive directors.

As at the end of FY16 the Remuneration Committee was composed of:

- Mr Chris Woodforde (independent) as the Chair of the Committee,
- Mr Ian Ferrier (independent, Chairman of the board), and
- Mr Greg Wilkinson (independent, Deputy Chairman of the board).

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

The role and responsibilities of the committee are outlined in the Reckon Remuneration Committee Charter (the Charter), available on the Company Website. The role of the Remuneration Committee is to ensure that appropriate remuneration policies are in place which are designed to meet the needs of the Company and to enhance corporate and individual performance. That is, the development, maintenance and application of the Remuneration Governance Framework for the purposes of making recommendations to the Board regarding KMP remuneration matters, as well as advising the Board on procedures that must be undertaken in relation to the governance of remuneration, and communicating such matters to the market (such as the calculation of grants of incentives, review of performance conditions and receipt of independent advice, etc.).

Under the Charter, the Remuneration Committee is to be composed of at least three non-executive members with the majority being independent directors.

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

### 4.2 Trading Policy

The Trading Policy of the Company is available on the Company website. It contains the standard references to insider trading restrictions that are a legal requirement under the Corporations Act, as well as conditions associated with good corporate governance. To this end the policy specifies trading windows during which officers of the Company may trade in the securities of the Company, and that officers must seek permission from the Chairman of

the Company before so doing. It also requires officers to notify the Company Secretary of the transaction once completed, and prohibits trading at all other times unless an exception provided by the Chairman following an assessment of the circumstances (e.g. financial hardship). Trading windows arise during the six week period commencing 24 hours after each of the following events:

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

Officers generally includes directors and Senior Executives of the Company.

The policy also restricts employees from short-term trading or from hedging etc. and gives the Board the power to suspend all dealing in Company securities by employees at any time, should it be appropriate.

Prior to presenting full year results, equity plan participants are required to confirm that they have not entered into any transactions which would contravene the Company's trading policy.

### 4.3 Executive Remuneration Policy

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

- Remuneration should be composed of:
  - Base Package (inclusive of superannuation, allowances, benefits and any applicable fringe benefits tax (FBT) as well as any salary sacrifice arrangements),
  - Short term incentive (STI) which provides a reward for performance against annual objectives, and
  - Long term incentive (LTI) which provides an equity-based reward for performance against indicators of shareholder benefit or value creation, over a three year period, and
  - In total the sum of the elements will constitute a total remuneration package (TRP).
- Both internal relativities and external market factors should be considered,
- TRPs ought to be structured with reference to market practices and the circumstances of the Company at the time,
- That the Base Package policy mid-points should be set with reference to P50 (the median or the middle) of the relevant market practice,
- That TRPs at Target (being the Base Package plus incentive awards intended to be paid for targeted levels of performance) should be set between P50 and P75 (the upper quartile, the point at which 75% of the sample lies below) of the relevant market practice so as to create a strong incentive to achieve targeted objectives in both the short and long term,
- Remuneration will be managed within a range so as to allow for the recognition of individual differences such as the calibre of the incumbent and the competency with which they fulfil a role (a range of +/- 20% is used, in line with common market practices),
- Exceptions will be managed separately such as when particular talent needs to be retained or there are individuals with unique expertise that need to be acquired ("Red circle" exceptions), and
- Termination benefits will generally be limited to the default amount that may be provided for without shareholder approval, as allowed for under the Corporations Act.

# Remuneration Report (Audited) (continued)

## 4.4 Non-executive Director Remuneration Policy

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

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

During the FY16 reporting period the following fees were applicable:

Function	Role	Fee Including Super
Main Board	Chair	\$123,188
	Member	\$110,869*
Audit & Risk Committee	Chair	n/a
	Member	n/a
Nomination & Remuneration Committee	Chair	n/a
	Member	n/a
Other Committee	Chair	n/a
	Member	n/a

\*Average

As at the commencement of FY17, the following fees apply:

Function	Role	Fee Including Super
Main Board	Chair	\$126,651
	Member	\$113,059*
Audit & Risk Committee	Chair	n/a
	Member	n/a
Nomination & Remuneration Committee	Chair	n/a
	Member	n/a
Other Committee	Chair	n/a
	Member	n/a

\*Average

#### 4.5 Short Term Incentive (STI) Policy

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

- STI should be settled in part or whole in the form of cash, and if appropriate at the time, a portion may be specified as being settled in the form of equity,
- The target cash component of the STI at target should have a weighting in the remuneration mix that is no greater than the sum of LTI at target and any equity component of the STI at target, to ensure that executives are focussed on long term value creation via equity ownership,
- If part of the STI is to be settled in the form of equity,
  - STI deferral is to apply to contribute to the long term alignment of executives and shareholders, and to facilitate retention of senior executive talent, and
  - For FY16, approximately one third to one half of any STI award will be settled provided the incumbent has remained employed for 12 months following the end of the STI Measurement Period in order to receive the full award.

See below regarding the treatment of those executives for whom it is not reasonable to provide share-based equity due to the tax consequences that apply when the participant owns a material share of the Company's issued capital.

#### 4.6 Long Term Incentive (LTI) Policy

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

Further:

- The LTI should be based on Performance Rights that vest based on assessment of performance against objectives,
- The Measurement Period should be three years,
  - As noted above, the Company has instituted a transitional arrangement whereby as legacy grants of equity are phased out (such as the previous grants of retention incentives) certain tranches of the FY16 offers will be tested (but not vested) early to ensure a smooth and consistent transition to the new equity arrangements. This is necessary to align the Company's future equity practices with accepted market practice in a way that does not punish executives by reducing their opportunity for equity to be earned during the transition,
  - For FY16, three tranches were offered, one with a 12 month Measurement Period, and two with a 24 month Measurement Period, however the latter Measurement Period does not commence for 12 months, producing a three year period between the start of the first Measurement Period, and the end of the second Measurement Period. No vesting occurs prior to the elapsing of three years.
- There should be two measures of long term performance, one which best reflects internal measures of performance and one which best reflects external measures of performance,
- The measure that has strongest alignment with shareholders is total shareholder return (TSR), however it is recognised that absolute TSR is influenced by overall economic movements. Therefore the TSR component of LTI is based on relative TSR which removes broad market movements from assessments of the Company's TSR performance, and avoids windfall gains from broad market movements. The vesting scale has been adjusted to only vest when the performance of the Company meets or exceeds the performance of the broader market, in response to stakeholder feedback,

# Remuneration Report (Audited) (continued)

- Senior Executives are faced with significant and long term business development and project based challenges. Therefore the LTI should also be linked to the achievement of earnings growth objectives that will lead to value creation for shareholders, and the earnings per share (EPS) growth measure is considered the best measure of long term performance and value creation from an internal perspective, by the Board and by many stakeholders,
- Reckon is fortunate to have KMP, including the MD/CEO, who are already strongly aligned with shareholders due to personal acquisition and ownership of shares. When an executive owns a substantial portion of the Company's issued capital, they are ineligible for employee share scheme (ESS) tax treatment, and the consequences of participating in the plan are punitive. In order to address this there is a separate plan which is effectively the same as the Rights LTI plan but allows for the LTI instrument to be replaced with Share Appreciation Rights (SARs) which are settled in cash, when this circumstance arises. Such payments are treated the same way as a cash STI in terms of tax. This treatment also applies to any deferred component of STI that would otherwise be awarded in the form of share-based rights. Whilst it is recognised that the settling of incentive rights in the form of cash is unusual, it is trusted that shareholders understand the need to do so in these limited cases,
  - The SAR plan operates in a similar way to an option, in that the participant only receives a benefit to the extent of growth in value over the market value of a share at the time of calculation/granting. This requires that they be valued differently, as their value is not the whole value of a Company share.

## 4.7 Variable Executive Remuneration – The Short Term Incentive (STI)

Short Term Incentive (STI)	
Aspect	Plan, Offers and Comments
Purpose	The STI Plan's purpose is to give effect to an element of Senior Executive Remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for Senior Executives to deliver and outperform annual business plans that will lead to sustainable superior returns for shareholders. Target-based STI's are also intended to modulate the cost to the Company of employing Senior Executives, such that risk is shared with the executives themselves and the cost to the Company is reduced in periods of poor performance.
Measurement Period	The Company's financial year i.e. from 1 January to the following 31 December.
Award Opportunities	<p><b>FY16 Offer</b></p> <p>The CEO was offered a target-based STI equivalent to roughly 24% of the Base Package for target performance, with a stretch opportunity of up to 110% of the target.</p> <p>Other Senior Executives who are KMP were offered a target-based STI equivalent to between 10% and 21% of the Base Package for target performance with a stretch opportunity of up to 110% of the target.</p> <p><b>Comments</b></p> <p>The incentive levels offered in FY16 were consistent with the proportional opportunities (proportional to Base Package) offered in previous years.</p> <p><b>FY17 Offer</b></p> <p>The FY17 offers do not materially depart from the FY16 offers.</p> <p><b>Comments</b></p> <p>The incentive levels offered in FY17 were consistent with the opportunities (proportional to Base Package) offered in previous years.</p>



Key Performance Indicators (KPIs), Weighting and Performance Goals	<p><b>FY16 Offers</b></p> <p>KPIs may vary to some extent between participants and reflect the nature of their roles, while creating shared objectives where appropriate. KPIs used for FY16 included:</p> <ul style="list-style-type: none"> <li>• Revenue,</li> <li>• EBITDA,</li> <li>• EPS,</li> <li>• Weightings are applied to the KPIs selected for each participant to reflect the relative importance of each KPI. Information on this aspect and specific KPIs is given in detail elsewhere in this report.</li> </ul> <p><b>Comments</b></p> <p>The Board selected KPI's that were identified as having the strongest links with long term value creation for shareholders at the Company level, and those objectives over which individuals had most control that would also be expected to contribute to long term value creation and sustainability for shareholders within a 12 month period, as well as KPIs to recognise individual role related objectives and business plans for FY16.</p> <p><b>FY17 Offers</b></p> <p>FY17 offers were made on a similar basis to FY16 offers, based on a similar rationale, although the specific levels of performance and some KPIs were adjusted to account for the expected conditions in FY17. These will be disclosed in detail as part of the next Remuneration Report. It is noted that there is a duplication of EPS with the new LTI performance measures and this is intended to be addressed for FY17.</p>
Award Determination and Payment	<p>Calculations are performed following the end of the Measurement Period and the audit of Company accounts.</p> <p>Payments are in cash (around 62% in 2016) with PAYG tax deducted, paid following the completion of the Measurement Period and completed audited full year accounts. A portion of the STI (between one third and one half) is only paid a year later provided the KMP is still employed.</p> <p>Performance was determined following audit sign-off of the FY16 accounts.</p>
Cessation of Employment During a Measurement Period	<p>In the event of cessation of employment due to dismissal for cause all entitlements in relation to the Measurement Period are forfeited.</p> <p>In the event of cessation of employment for other reasons all entitlements in relation to the Measurement Period are forfeited, unless otherwise determined by the Board. No awards are paid on termination that would breach the default limit on termination benefits for managerial and executive officers, unless shareholder approval is obtained to do so.</p>
Change of Control	<p>The Board has discretion to terminate the STI for the Measurement Period and make pro-rata awards having regard to performance or make pro-rata awards based on performance and allow the plan to continue for the Measurement Period or make no interim awards and allow the Plan to continue for the Measurement Period.</p>
Plan Gate and Board Discretion	<p>If the Company's overall performance during the Measurement Period is substantially lower than expectations and resulted in significant loss of value for shareholders the Board may abandon the STI Plan for the Measurement Period or adjust STI payouts downward. The Board also has discretion to increase payouts, however, as noted earlier in this report, it has been determined that such discretion will only be applied in future when it would be substantially inappropriate not to do so, due to an anomaly during the Measurement Period, or because of exceptional circumstances, which would be explained in detail as part of the Remuneration Report.</p>

# Remuneration Report (Audited) (continued)

Fraud, Gross Misconduct etc. If the Board forms the view that a Participant has committed fraud, defalcation or gross misconduct in relation to the Company then all entitlements in relation to the Measurement Period will be forfeited by that participant.

Clawback & Malus A clawback policy is in place for cases of material misstatement or misconduct. The Remuneration Committee has the power to withdraw offers that have not vested or to clawback short-term incentives paid in the case of serious misconduct or material misstatement in the financial statements respectively.

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

### Long Term Incentive (LTI)

Aspect	Plan, Offers and Comments
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Purpose	The LTI Plan's purpose is to give effect to an element of Senior Executive remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for Senior Executives to deliver Company performance that will lead to sustainable superior returns for shareholders. Other purposes of the LTI Plan is to act as a retention mechanism so as to maintain a stable team of performance focussed Senior Executives, to create alignment with the interests and experiences of shareholders and to modulate the cost to the Company of employing executives such that in periods of poor performance the cost is lesser (applies to non-market measures under AASB2). Currently the Company operates two performance rights plans, one which is settled in the form of Company shares (equity-based Rights), and one which is settled in the form of cash, but based on growth/change in the Company's share price (SARs), similar to an option (necessary to avoid potentially adverse tax treatment of certain executive KMP due to personal shareholdings).
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Measurement Period	Three years.
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Form of Equity	<p>LTI is in the form of Performance Rights, which are either rights to:</p> <ul style="list-style-type: none"> <li>• ordinary Company shares, under the regular LTI plan,</li> <li>• or to a cash value equivalent to growth in the market value of a share in respect of each vested Performance Right, since the date of grant/calculation, under the share appreciation rights plan (SARs),</li> </ul> <p>both of which which vest subject to the satisfaction of conditions related to long term performance and/or service on an identical basis i.e. the form of equity has no bearing on the setting of vesting conditions etc.</p> <p>There is no entitlement to dividends during the Measurement Period.</p>
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LTI Value

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

**FY16 Offers**

In relation to the MD/CEO, Performance Rights with a target/maximum value equivalent to 14% of the cash Base Package when target vesting applies.

For other Senior Executives (direct reports to the MD/CEO, executive KMP) the LTI granted was equivalent to between 2% and 11% of Base Packages when target vesting applies. A stretch level is not available for performance that exceeds the targets.

For the SAR plan, the value of a Right is determined by the Black-Scholes option model, ignoring vesting conditions. For FY16 (for the KPI period FY16 to FY18) the grant of rights was determined by an absolute number of shares only based on the Remuneration Committee’s intention to provide a meaningful retention incentive for the 3 year period during which the transitional issues mentioned above will be faced by management.

Measurement Period

The Measurement Period will be three years unless otherwise determined by the Board.

**FY16 Offers**

Under the offers made during FY16, no rights will vest until the completion of the third year following the commencement of the first Measurement Period (three year vesting period). However, as noted earlier in this report, to ensure fairness and a smooth transition to the new LTI arrangements, there is one tranche with a Measurement Period that is FY16, and two which have Measurement Period of FY17 to FY18. The Measurement Periods therefore cover the three financial years from 1 January 2016 to 31 December 2018. To address stakeholder expectations that LTI vesting periods should be three years, a two year delay after the initial one year Measurement Period has been attached.

A diagram showing the transition arrangements follows:

Weighting		FY16	FY17	FY18
Tranches		<- Start of performance period		Vesting ->
50%	Tranche 1	Tranche 1 EPSG measurement period		
25%	Tranche 2		Tranche 2 EPSG measurement period	
25%	Tranche 3		Tranche 3 EPSG measurement period	

**FY17 Offers**

For offers made in or after FY17, the Measurement Period will be three years, unless exceptional circumstances arise and a determination is made by the Board to alter the period.

**Comments**

Three year Measurement Periods combined with annual grants will produce overlapping cycles that will promote a focus on producing long term sustainable performance/value improvement and mitigates the risk of manipulation and short-termism.

# Remuneration Report (Audited) (continued)

Vesting Conditions The Board has discretion to set vesting conditions for each offer. Performance Rights that do not vest will lapse.

## FY16 Offers

Except as indicated below, a participant must remain employed by the Company during the Measurement Period and the performance conditions must be satisfied for Rights to vest.

The FY16 offers included two performance conditions, **tranche 1 vesting in relation to earnings per share growth (EPSG)**, and **tranche 2 and tranche 3 vesting in relation to EPSG and relative TSR**. The vesting scales follow:

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

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

## FY17 Offers

FY17 offers do not materially depart from FY17 offers, save that the performance conditions are equally weighted over the 3 year performance period.

## Comments

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

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

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

While ranked TSR was considered, it was not possible to identify a comparator group of companies that was statistically robust enough to be meaningful and the Board was concerned that this would undermine the link between executive performance and reward outcomes. In addition the comparator group used until very recently is no longer appropriate as several entities have failed or are no longer listed on the ASX. TSR relative to a robust indicator of market movements/performance will therefore apply to future grants of LTI from FY16.

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

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

For FY17 the weighting upon the TSR measure and the weighting upon EPS will be 50% and 50% respectively, so as to optimise the alignment with shareholders' interests.

Retesting	The Plan Rules do not contemplate retesting and therefore retesting is not a feature of the Company's current LTI offers.
Plan Gate & Board Discretion	<p>A gate applies to the TSR component of the LTI such that no vesting will occur if the Company's TSR is not positive. If the movement of the index is low over the Measurement Period, at less than 5%, then the Board will exercise its discretion to limit vesting to the threshold level, or an even lesser level.</p> <p>The Board has the power to exercise discretion to decline to allow an award to vest, for example in the circumstances of a "bad leaver".</p>
Amount Payable for Performance Rights	<p>No amount is payable for Performance Rights.</p> <p>The value of Rights is included in assessments of remuneration and policy positioning.</p>
Exercise of Vested Performance Rights	<p>Under the plan rules, vested Performance Rights will be available to be exercised, subject to the payment of any Exercise Price, until the last exercise date. Exercised Rights will be satisfied in the form of ordinary Company shares, except where the participant necessarily participates in the cash Rights (SAR) plan to address the tax issues faced by them as significant shareholders in the Company (see earlier discussion of this aspect).</p> <p>No amount is payable by participants to exercise vested Performance Rights.</p>
Dealing Restrictions on Shares	Shares that result from the exercise and vesting of Performance Rights will be subject to dealing restrictions as per the Company's trading policy applicable to officers of the Company.

# Remuneration Report (Audited) (continued)

Cessation of Employment	In the event of cessation of employment due to dismissal for cause all unvested Performance Rights are forfeited.  In the event of cessation of employment due to resignation or dismissal all unvested Performance Rights are forfeited.
Change of Control of the Company	The Board retains discretion under the rules of the plans to over-rule the automatic vesting of incentives in the event of “capital events” such as takeovers or restructures.
Clawback & Malus	A clawback policy is in place which is activated in the case of material misstatement or misconduct.

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

It was also intended that these performance shares could be used to provide an incentive for employees with potential for a longer term contribution to the success of the company to participate in the growth of equity value of the company. Part of the company’s success as an organisation is premised on human domain expertise and the consistency and longevity of service of KMP and other senior employees. The offer of these additional performance shares is designed to encourage and reward employees to commit to longevity as well as to complement other traditional forms of executive remuneration. By rewarding those employees who commit to the company over a very long period and thereby providing stability as the business grows and matures, the board believes long term shareholder benefits will result for shareholders.

The long term retention incentives are offered to selected employees with the principal vesting condition that participants must remain employed for the term specified (typically 7-10 years). The shares offered remain at risk of forfeiture until the relevant period of service has been satisfied. There is no entitlement to dividends during the relevant period of service.

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

However no grants were made to KMP under that plan during FY16, and in response to feedback from some shareholders and stakeholders, the Board does not contemplate making further grants such as this to executive KMP again unless exceptional circumstances arise. This legacy arrangement is being grandfathered and is phasing out, with the final tranche vesting at the end of FY20.

## 4.9 Securities Holding Policy

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

## 4.10 Clawback Policy

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

## 5 Remuneration Records for FY16 – Statutory Disclosures

### 5.1 Senior Executive Remuneration

The following table outlines the remuneration received by Senior Executives of the Company during FY16 prepared according to statutory disclosure requirements and applicable accounting standards:

Name	Role(s)	Year	Salary	Superannuation Contributions	Other Benefits	Base Package		STI		LTI*		Total Remuneration Package (TRP)
						Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	
Mr Clive Rabie	MD/CEO	2016	\$786,250	\$35,000	\$0	\$821,250	76%	\$297,580	27%	(\$32,351)**	3%	\$1,086,479
	MD/CEO	2015	\$747,925	\$35,000	\$0	\$782,925	61%	\$303,899	24%	\$188,784	15%	\$1,275,608
Mr Chris Hagglund	Group CFO	2016	\$452,275	\$35,000	\$0	\$487,275	71%	\$137,395	20%	\$65,329	9%	\$689,999
	Group CFO	2015	\$435,850	\$34,400	\$0	\$470,250	72%	\$139,909	21%	\$43,387	7%	\$653,546
Mr Myron Zlotnick	General Counsel/ CoSec	2016	\$360,000	\$34,200	\$0	\$394,200	72%	\$91,497	17%	\$62,998	11%	\$548,695
	General Counsel/ CoSec	2015	\$350,000	\$33,250	\$0	\$383,250	75%	\$92,664	18%	\$33,505	7%	\$509,419
Mr Sam Allert	MD ANZ	2016	\$408,000	\$30,000	\$5,632	\$443,632	75%	\$91,639	16%	\$50,855	9%	\$586,126
	MD ANZ	2015	\$375,150	\$30,000	\$6,833	\$411,983	77%	\$93,693	18%	\$19,332	4%	\$525,008
Mr Daniel Rabie	COO	2016	\$250,000	\$23,750	\$0	\$273,750	80%	\$28,950	8%	\$41,518	12%	\$344,218
	COO	2015	\$215,000	\$20,425	\$0	\$235,425	87%	\$28,837	11%	\$5,465	2%	\$269,727

\* Note that the LTI value reported in this table is the amortised accounting charge of all grants that have not lapsed or vested as at the start of the reporting period. Where a market based measure of performance is used such as TSR, no adjustments can be made to reflect actual LTI vesting. However in relation to non-market conditions, such as EPS, adjustments must be made to ensure the accounting charge matches the vesting.

\*\* Intended to be cash settled.

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

No termination benefits were paid in FY16.

# Remuneration Report (Audited) (continued)

## 5.2 Non-executive Director Remuneration

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

Remuneration received by non-executive directors in FY16 and FY15 is disclosed below:

Name	Role(s)	Year	Board Fees	Committee Fees	Superannuation	Other Benefits	Equity Grant	Termination Benefits	Total
Mr Ian Ferrier	Independent, Non-executive Chairman	2016	\$112,500	\$0	\$10,688	\$0	\$0	\$0	\$123,188
	Independent, Non-executive Chairman	2015	\$104,000	\$0	\$9,880	\$0	\$0	\$0	\$113,880
Mr Greg Wilkinson	Non-executive Director and Deputy Chairman	2016	\$107,500	\$0	\$10,212	\$0	\$0	\$0	\$117,712
	Non-executive Director and Deputy Chairman	2015	\$104,000	\$0	\$9,880	\$0	\$0	\$0	\$113,880
Mr Chris Woodforde	Independent Non-executive Director	2016	\$95,000	\$0	\$9,025	\$0	\$0	\$0	\$104,025
	Independent Non-executive Director	2015*	\$45,000	\$0	\$4,275	\$0	\$0	\$0	\$49,275

\* Appointed 1 July 2016.



## 6 Planned Executive Remuneration for FY16

The disclosures required under the Corporations Act and prepared in accordance with applicable accounting standards reflect an attempt to match remuneration with the services provided to earn that revenue whereas the table below provides information to users to understand remuneration offered to KMP to be earned in the current and future periods. For example the LTI disclosed is not reflective of the offer made in the year being reported on due to the requirements of AASB2. Therefore the following table is provided to ensure that shareholders have an accurate understanding of the Board's intention regarding the remuneration offered to executives during FY16, for target performance. It should be noted that the table presents target incentive opportunities for achieving a challenging but achievable target level of performance. In the case of STI, the maximum incentive may be up to 10% higher (i.e. 110% of the target) and no additional amount is available in relation to the LTI (i.e. target=maximum).

Position	Incumbent	Base Package Including Super	Fixed % TRP	STI		LTI			Total Remuneration Package at Target Performance	
				Target % of Base Package	Target STI Amount	STI % TRP	Target % of Base Package	Target LTI Amount		LTI % TRP
MD/CEO	Mr Clive Rabie	\$821,250	62%	39%	\$324,000	24%	23%	\$189,000	14%	\$1,334,250
Group CFO	Mr Chris Hagglund	\$487,275	68%	31%	\$151,500	21%	17%	\$81,500	11%	\$720,275
General Counsel/ CoSec	Mr Myron Zlotnick	\$394,200	72%	25%	\$98,000	18%	13%	\$53,000	10%	\$545,200
MD Business & Accounting ANZ	Mr Sam Allert	\$443,632	77%	23%	\$100,000	18%	8%	\$35,000	6%	\$578,632
COO	Mr Daniel Rabie	\$273,750	88%	11%	\$30,000	10%	2%	\$5,000	2%	\$308,750

The incentives presented in the table above is the target level of STI and the target/maximum level of LTI offered for FY16, valued at the time of the grant.

The intended value for STI and LTI will flow to participants when performance targets are achieved.

# Remuneration Report (Audited) (continued)

## 7 Actual/Realised Remuneration Relevant to FY16 Completion

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

Name	Role(s)	Year	Base Package Including Super		Non-deferred STI Awarded for the Financial Year		Deferred cash STI paid out for the FY		Grant Value of Previous Equity Grants that Vested for the FY*		Actual Total Remuneration Package (TRP)
			Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	Amount	% of TRP	
Mr Clive Rabie	MD/CEO	2016	\$821,250	72%	\$189,997	17%	\$129,259	11%	\$0	0%	\$1,140,506
	MD/CEO	2015	\$782,925	72%	\$180,963	17%	\$116,617	11%	\$12,747	1%	\$1,093,252
Mr Chris Hagglund	Group CFO	2016	\$487,275	73%	\$81,930	12%	\$64,390	10%	\$34,890	5%	\$668,485
	Group CFO	2015	\$470,250	72%	\$78,034	12%	\$59,361	9%	\$44,744	7%	\$652,389
Mr Myron Zlotnick	General Counsel/ CoSec	2016	\$394,200	77%	\$53,280	10%	\$43,086	9%	\$22,690	4%	\$513,256
	General Counsel/ CoSec	2015	\$383,250	76%	\$50,746	10%	\$40,751	8%	\$29,098	6%	\$503,845
Mr Sam Allert	MD Business & Accounting ANZ	2016	\$443,632	79%	\$80,422	14%	\$19,149	3%	\$14,984	3%	\$558,187
	MD Business & Accounting ANZ	2015	\$411,983	78%	\$76,598	15%	\$15,041	3%	\$19,215	4%	\$522,837
Mr Daniel Rabie	COO	2016	\$273,750	89%	\$25,132	8%	\$4,787	2%	\$2,142	1%	\$305,811
	COO	2015	\$235,425	89%	\$23,937	9%	\$5,014	2%	\$0	0%	\$264,376

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

At exercise date the value of shares that vest can be calculated by reference to a VWAP based on 5 days trading price to the date of vesting, \$1.60.

## 8 Performance Outcomes for FY16

### 8.1 Company Performance

The following highlights the major achievements, milestones and areas where value was created during FY16:

- Increase in long term sustainable subscription revenue;
- Strong volume growth in competitive markets;
- New customer growth in competitive markets;
- New customer growth in online product markets;
- International businesses exceeding expectations, especially Document Management.

The following outlines the performance of the Company over the FY16 period and the previous 4 financial years in accordance with the requirements of the Corporations Act:

Date	Revenue (\$m)	Profit After Tax attributable to owners of the parent (\$m)	Share Price	Change in Share Price	Dividends
31-Dec-16	\$97.8*	\$11.0	\$1.59	-\$0.81	\$0.05
31-Dec-15	\$105.13	\$14.6	\$2.40	\$0.59	\$0.07
31-Dec-14	\$100.8	\$17.0	\$1.81	-\$0.36	\$0.09
31-Dec-13	\$98.1	\$17.8	\$2.17	-\$0.19	\$0.09
31-Dec-12	\$96.6	\$17.3	\$2.36	\$0.02	\$0.09

\*Note change in reporting of ASIC pass through revenue / costs (impact of \$12.5m).

# Remuneration Report (Audited) (continued)

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

Financial Year (FY)	Operating Revenue Target	Consensus Average	Operating Revenue Achieved	EBITDA Target	Consensus Average	EBITDA Achieved
2010	\$92.3m	\$93.1m	\$90.1m	\$29.0m	\$30.7m	\$30.1m
2011	\$96.8m	\$94.6m	\$90.2m	\$32.5m	\$33.7m	\$33.1m
2012	\$98.3m	\$96.3m	\$96.6m	\$36.0m	\$35.3m	\$34.0m
2013	\$104.9m	\$100.1m	\$98.1m	\$36.1m	\$36.0m	\$35.3m
2014	\$104.5m	\$102.1m	\$100.8m	\$37.4m	\$38.5m	\$37.1m
2015	\$107.3m	\$105.9m	\$105.1m	\$38.9m	\$39.6m	\$36.6m / \$39.2m*
2016	\$104.2m	\$100.0m***	\$97.8m	\$35.0m	\$35.4m	\$35.3/40.5m**

\* Adjusted for new market expenditure. For purposes of remuneration, awards were calculated on the unadjusted figures.

\*\* Adjusted for new market expenditure and business sold. For purposes of remuneration, awards were calculated on the unadjusted figures.

\*\*\* Excluded reports that had not adjusted for ASIC fee.

## 8.2 Links Between Performance and Reward

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

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

The STI paid during the FY16 period related to performance during the FY15 period and was paid in cash on 15 February 2016. On average 96% of the target award opportunity or 87% of the maximum award opportunity (being 110% of the target) available was paid. This level of award was considered appropriate under the STI scheme that was in place during FY15, which is summarised in the table below. Therefore there were strong links between internal measures of Company performance and the payment of short term incentives.

Name	Position Held at Year End	FY15 Company Level KPI Summary				Award Outcomes
		KPI Summary	Weighting	Target	Achievement	Total Award
Mr Clive Rabie	MD/CEO	Revenue	40%	\$107.3m	98%	\$180,963
		EBITDA	40%	\$38.9m	94%	
		EPS	20%	13.8cps	95%	
Mr Chris Hagglund	Group CFO	Revenue	40%	\$107.3m	98%	\$78,034
		EBITDA	40%	\$38.9m	94%	
		EPS	20%	13.8cps	95%	
Mr Myron Zlotnick	General Counsel/ CoSec	Revenue	40%	\$107.3m	98%	\$50,746
		EBITDA	40%	\$38.9m	94%	
		EPS	20%	13.8cps	95%	
Mr Sam Allert	MD Business & Accounting ANZ	Revenue	40%	\$107.3m	98%	\$76,598
		EBITDA	40%	\$38.9m	94%	
		EPS	20%	13.8cps	95%	
Mr Daniel Rabie	COO	Revenue	40%	\$107.3m	98%	\$23,937
		EBITDA	40%	\$38.9m	94%	
		EPS	20%	13.8cps	95%	

# Remuneration Report (Audited) (continued)

The STI achieved in relation to the FY16 period was paid after the end of the period (i.e. during FY17, on 15 February 2017). On average 96% of the target award opportunity or 87% of the maximum award opportunity (being 110% of the target) available was paid. This level of award was considered appropriate under the STI scheme since the objectives were set and offers made in relation to the achievement of each KPI at the beginning of the financial year, and the majority of those objectives were met. During the FY16 period the objectives that were linked to the payment of STI included:

Name	Position Held at Year End	FY16 Company Level KPI Summary				Award Outcomes
		KPI Summary	Weighting	Target	Achievement	Total Award
Mr Clive Rabie	MD/CEO	Revenue	40%	\$104.2m	96%	\$189,997
		EBITDA	40%	\$35m	101%	
		EPS	20%	7.3cps	110%	
Mr Chris Hagglund	Group CFO	Revenue	40%	\$104.2m	96%	\$81,930
		EBITDA	40%	\$35m	101%	
		EPS	20%	7.3cps	110%	
Mr Myron Zlotnick	General Counsel/ CoSec	Revenue	40%	\$104.2m	96%	\$53,280
		EBITDA	40%	\$35m	101%	
		EPS	20%	7.3cps	110%	
Mr Sam Allert	MD Business & Accounting ANZ	Revenue	40%	\$104.2m	96%	\$80,422
		EBITDA	40%	\$35m	101%	
		EPS	20%	7.3cps	110%	
Mr Daniel Rabie	COO	Revenue	40%	\$104.2m	96%	\$25,132
		EBITDA	40%	\$35m	101%	
		EPS	20%	7.3cps	110%	

These KPIs outlined were selected because they were the most significant matters expected to contribute to the success of the Company during FY16 in the case of each role. Following the end of the Measurement Period (the financial year), the Company accounts were audited and reports on the Company's activities during the year were prepared for the Board. The Board then assessed the extent to which target levels of performance had been achieved in relation to each KPI and used the pre-determined scales (for non-binary measures) to calculate the total award payable. This method of performance assessment was chosen because it is the most objective approach to short term incentive governance, and reflective of market best practices.

During the reporting period, previous grants of equity made under the LTI scheme vested in relation to grants that were made in January 2014 and which vested in relation to the performance period FY14 to FY16 being completed, i.e. vesting during FY16. This value is accounted for in the realised remuneration table presented earlier.

Incumbent	Role	Target LTI Value (at grant January 2014) to Vest for FY16	Tranche	Weighting	Number of Shares Eligible to Vest for FY16	Performance Against Target	% of Grant Vested	Number of Shares or Appreciation Rights Vested
Mr Clive Rabie	MD/CEO	\$189,000	TSR	100%	0	Not achieved	0%	0
Mr Chris Hagglund	Group CFO	\$69,780	TSR	100%	37,760	Partially Completed	50%	18,880
Mr Myron Zlotnick	General Counsel/ CoSec	\$45,380	TSR	100%	24,556	Partially Completed	50%	12,278
Mr Sam Allert	MD Business & Accounting ANZ	\$29,968	TSR	100%	16,216	Partially Completed	50%	8,108
Mr Daniel Rabie	COO	\$4,284	TSR	100%	2,318	Partially Completed	50%	1,159
<b>TOTAL</b>		<b>\$338,412</b>			<b>80,850</b>			<b>40,425</b>

At no time during or in relation to FY16 did the Board exercise its discretion to increase the vesting of any equity that was subject to such discretion. The vesting of LTI scheme incentives correlated directly to performance.

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

### 8.3 Links Between Company Strategy and Remuneration

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

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

Key strategies are: investment in new technology; investment in new markets; maintenance of existing profitable businesses. The company continues to play catch up in the cloud market because of restrictions imposed on it by its relationship with Intuit Inc. It is important to fix remuneration mindful of maintaining morale and retaining talent.

# Remuneration Report (Audited) (continued)

## 9 Employment Terms for Key Management Personnel

### 9.1 Service Agreements

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

Name	Position Held at Close of FY16	Employing Company	Duration of Contract	Period of Notice		Termination Payments
				From Company	From KMP	
Mr Clive Rabie	MD/CEO	Reckon Limited	Open ended	1 month	1 month	Up to 12 months*
Mr Chris Hagglund	Group CFO	Reckon Limited	Open ended	3 months	3 months	Up to 12 months*
Mr Myron Zlotnick	General Counsel/CoSec	Reckon Limited	Open ended	1 month	1 month	Up to 12 months*
Mr Sam Allert	MD Business & Accounting ANZ	Reckon Limited	Open ended	1 month	1 month	Up to 12 months*
Mr Daniel Rabie	COO	Reckon Limited	Open ended	1 month	1 month	Up to 12 months*

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

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

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

Name	Position Held at Close of FY16	Employing Company	Duration of Contract	Period of Notice		Termination Payments
				From Company	From KMP	
Mr Ian Ferrier	Independent, Non-executive Chairman	Reckon Limited	Open ended	None	None	None
Mr Greg Wilkinson	Independent Non-executive Director and Deputy Chairman	Reckon Limited	Open ended	None	None	None
Mr Chris Woodforde	Independent Non-executive Director	Reckon Limited	Open ended	None	None	None



## 10 Changes in KMP Held Equity

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

Name	Instrument	Number Held at Open 2016	Granted FY16	Forfeited	Vested	Purchased / DRP	Number Held at Close 2016
		Number	Number	Number	Number	Number	Number
Mr Clive Rabie	Shares	10,758,000	0	0	0	472,189	11,230,189
	Share Appreciation Rights	1,337,661	300,000	590,625	0	0	1,047,036
Mr Chris Hagglund	Shares	473,655	0	0	18,880	61,303	553,838
	Performance Shares	187,774	100,000	18,879	18,880	0	250,015
Mr Myron Zlotnick	Shares	184,092	0	0	12,278	0	196,370
	Performance Shares	175,702	100,000	12,278	12,278	0	234,274*
Mr Sam Allert	Shares	8,571	0	0	8,108	0	16,679
	Performance Shares	85,548	100,000	8,108	8,108	0	169,332
Mr Daniel Rabie	Shares	0	0	0	1,159	100,000	101,159
	Performance Shares	25,079	100,000	1,158	1,159	0	122,762

\*Released 16,872 shares held in trust under legacy tax regime.

# Remuneration Report (Audited) (continued)

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

Name	Instrument	Number Held at Open 2016		Granted FY16	Forfeited	Vested	Purchased / DRP	Number Held at Close 2016
		Dates Granted	Number	Number	Number	Number	Number	Number
Mr Ian Ferrier	Shares		100,000	na	na	na	2,159	102,159
	Rights/Options		na	na	na	na	na	na
Mr Greg Wilkinson	Shares		7,450,000	na	na	na	569,374	8,019,374
	Rights/Options		na	na	na	na	na	na
Mr Chris Woodforde	Shares		20,000	na	na	na	25,432	45,432
	Rights/Options		na	na	na	na	na	na

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

2016 Equity Grants		Tranche	Total Value at Grant	Value Expensed in FY16	Max Value to be Expensed in Future Years	Min Value to be Expensed in Future Years
Name	Role					
Mr Clive Rabie	MD/CEO	TSR	\$113,000	\$37,667	\$113,000	\$0.00
		EPS	\$226,000	\$75,333	\$113,000	\$0.00
		Service	Must be employed at end of performance period			
Mr Chris Hagglund	Group CFO	TSR	\$37,667	\$12,556	\$37,667	\$0.00
		EPS	\$75,333	\$25,111	\$37,667	\$0.00
		Service	Must be employed at end of performance period			
Mr Myron Zlotnick	General Counsel/CoSec	TSR	\$37,667	\$12,556	\$37,667	\$0.00
		EPS	\$75,333	\$25,111	\$37,667	\$0.00
		Service	Must be employed at end of performance period			
Mr Sam Allert	MD Business & Accounting ANZ	TSR	\$37,667	\$12,556	\$37,667	\$0.00
		EPS	\$75,333	\$25,111	\$37,667	\$0.00
		Service	Must be employed at end of performance period			
Mr Daniel Rabie	COO	TSR	\$37,667	\$12,556	\$37,667	\$0.00
		EPS	\$75,333	\$25,111	\$37,667	\$0.00
		Service	Must be employed at end of performance period			
<b>TOTALS</b>			<b>\$791,000</b>	<b>\$263,667</b>	<b>\$527,333</b>	<b>\$0.00</b>

## 11 Other Remuneration Related Matters

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

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

## 12 External Remuneration Consultant Advice

During the reporting period, the Board approved and engaged an external remuneration consultant (ERC) to provide KMP remuneration recommendations and advice. The consultants and the amount payable for the information and work that led to their recommendations are listed below:

<b>Godfrey Remuneration Group Pty Limited</b>	A recommendation on the mix of remuneration elements offered to senior executives, bundled with commentary on other “non-recommendation” matters	\$18,000 +GST
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The consultant(s) also provided other services during the year and the kinds of advice and remuneration payable for such advice is summarised below:

<b>Godfrey Remuneration Group Pty Limited</b>	Fees for assistance amending incentive plan documentation, and for providing information and commentary to the Board regarding the incentive practices of peers in the market etc.	\$19,000 + GST
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So as to ensure that KMP remuneration recommendations were free from undue influence from the KMP to whom they relate the Company established policies and procedures governing engagements with external remuneration consultants. The key aspects include:

- a. KMP remuneration recommendations may only be received from consultants who have been approved by the Board. This is a legal requirement. Before such approval is given and before each engagement the Board ensures that that the consultant is independent of KMP.
- b. As required by law, KMP remuneration recommendations are only received by non-executive directors, mainly the Chair of the Remuneration Committee.
- c. The policy seeks to ensure that the Board controls any engagement by management of Board approved remuneration consultants to provide advice other than KMP remuneration recommendations and any interactions between management and external remuneration consultants when undertaking work leading to KMP remuneration recommendations.

The Board is satisfied that the KMP remuneration recommendations received were free from undue influence from KMP to whom the recommendations related. The reasons the Board is so satisfied include that it is confident that the policy for engaging external remuneration consultants is being adhered to and is operating as intended, the Board has been closely involved in all dealings with the external remuneration consultants and each KMP remuneration recommendation received during the year was accompanied by a legal declaration from the consultant to the effect that their advice was provided free from undue influence from the KMP to whom the recommendations related.

## Indemnification of Directors and Officers and Auditors

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

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

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

## Directors' Meeting

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

Reckon Limited – Attendance Tables						
Directors	Meeting					
	Board		Audit & Risk Committee		Remuneration Committee	
	A	B	A	B	A	B
Ian Ferrier	10	10	2	2	4	4
Chris Woodforde	10	10	2	2	4	4
Greg Wilkinson	10	9	2	2	4	4
Clive Rabie	10	10	n/a	n/a	n/a	n/a

Key:

A - number of meetings eligible to attend

B - number of meetings attended

## Non-Audit Fees

Details of the non-audit services can be found in note 7 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 7 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit & Risk Committee, for the following reasons:

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

On behalf of the directors

A handwritten signature in black ink, appearing to read "Ian Ferrier". The signature is written in a cursive, flowing style.

**Mr I Ferrier**

Chairman

Sydney 23 March 2017

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

23 March 2017

Dear Board Members

## RECKON LIMITED

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

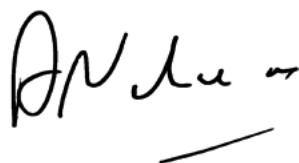
As lead audit partner for the audit of the financial statements of Reckon Limited for the financial year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



**Deloitte Touche Tohmatsu**



**Alfie Nehama**

Partner  
Chartered Accountants

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

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Reckon Limited (the Company) and its subsidiaries (the Group), which comprises the Consolidated Statement of Financial Position as at 31 December 2016, the Consolidated Statement of Profit or Loss, the Consolidated Statement of Profit and loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- i. Giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and
- ii. Complying with Australian Standards and the Corporations Regulation 2001.

#### Basis for Opinion

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

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

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

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Member of Deloitte Touche Tohmatsu Limited

# Auditor's Report (continued)

## Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<b>Capitalisation and carrying value of development costs</b>	
<p>As at 31 December 2016, the Group has capitalised developments costs totaling \$38.1m (2015: \$32.9m) as disclosed in Note 12.</p> <p>The Group capitalises certain costs that are directly attributable to the development of intangible assets.</p> <p>As set out in Note 1 (w), significant judgement is involved in assessing whether the criteria set out in the Australian Accounting Standards for capitalisation of such costs, has been met, particularly in determining:</p> <ol style="list-style-type: none"> <li>i. the appropriateness of the costs that can be capitalised and whether these costs were directly attributable to relevant products developed; and</li> <li>ii. the extent to which these capitalised development costs will generate sufficient economic benefit to support their carrying values.</li> </ol>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Discussing the products for which development costs have been capitalised with management, to develop an understanding of the nature and feasibility of the products at 31 December 2016,</li> <li>• Obtaining an understanding of the key controls in place over the process for recording and identifying qualifying costs to be capitalised,</li> <li>• Assessing the appropriateness of costs capitalised with reference to internal documentation, including, on a sample basis, agreeing payroll costs capitalised to supporting payroll and time records, and cost allocation calculations, and</li> <li>• Evaluating the appropriateness of the carrying value of the capitalised development costs by major product, with reference to historical and forecast cash flows, and analysis of sales trends.</li> </ul> <p>We also assessed the appropriateness of the related disclosures in Note 12 to the financial statements.</p>



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<b>Impairment of goodwill</b>	
<p>As at 31 December 2016 the Group has recognised goodwill of \$49.6m (2015: \$51.1m) as a result of historic acquisitions over a number of years as disclosed in note 12.</p> <p>As set out in Note 1 (w), the directors' assessment of the recoverability of goodwill requires the exercise of significant judgement, in particular;</p> <ol style="list-style-type: none"> <li>i. In identifying the cash generating units (CGU's) to which the goodwill has been allocated, and</li> <li>ii. In estimating the future growth rates, nominal discount rates and expected cash flows of each CGU.</li> </ol>	<p>Our procedures included, but were not limited to;</p> <ul style="list-style-type: none"> <li>• Assessing the Group's categorisation of CGU's and the allocation of goodwill to the carrying value of CGU's based on our understanding of the Group's business,</li> <li>• Challenging management's ability to accurately forecast cash flows by assessing the precision of the prior year forecasts against actual outcomes,</li> <li>• Engaging our valuation specialists to assist with; <ul style="list-style-type: none"> <li>• Comparing the discount rate utilised by management to an independently calculated discount rate;</li> <li>• Comparing the Group's forecast cash flows to the board approved budget; and</li> <li>• Performing sensitivity analysis on the growth and discount rates.</li> </ul> </li> </ul> <p>We also assessed the appropriateness of the related disclosures in Note 12 to the financial statements.</p>

<b>Revenue recognition in respect of multiple element arrangements</b>	
<p>As at 31 December 2016 the Group has reported Sales Revenue of \$97.7m (2015: \$91.4m) as disclosed in Note 3. The statement of financial position also reflects deferred revenue of \$11.7m (2015: \$10.7m).</p> <p>In multiple element arrangements where goods and services are sold as a bundled product, the fair value of the goods and services component is estimated and then recognised as revenue over the period during which goods are transferred and services are provided. The fair value of each component is determined on a cost plus basis.</p> <p>Significant judgement is required by management in determining the fair value attributable to each element of the bundled products and the period over which the revenue is recognised, together with the corresponding determination of deferred revenue.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>• Testing controls over the capture and measurement of revenue transactions,</li> <li>• Assessing the appropriateness of the Group's revenue recognition accounting policies for multiple element arrangements and their compliance with Australian Accounting Standards; and</li> <li>• Recalculating the fair value attributed to each element of the bundle, including; <ol style="list-style-type: none"> <li>i. Confirming the appropriateness of the logic used by Management in the underlying allocation model;</li> <li>ii. Ensuring the data inputs into the model have been properly extracted from underlying data sources; and</li> <li>iii. Creating an independent expectation of the margin to be applied, and comparing this to Management's margin.</li> </ol> </li> </ul> <p>We also assessed the appropriateness of the related disclosures disclosed in the Note 1(n) and 1 (o) to the financial statements.</p>

# Auditor's Report (continued)

## Other Information

The directors are responsible for the other information. The other information comprises the Message from the Chairman and Group CEO, the Directors' Report and the Additional Information as at 15 March 2017, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material of this other information, we are required to report that fact. We have nothing to report in this regard,

## Directors' Responsibilities for the Financial Report

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

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

## Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence

obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

### **Report on the Remuneration Report**

#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 16 to 43 of the directors' report for the year ended 31 December 2016.

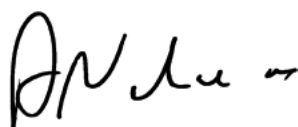
In our opinion, the Remuneration Report of Reckon Limited, for the year ended 31 December 2016, complies with section 300A of the Corporations Act 2001.

#### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**DELOITTE TOUCHE TOHMATSU**



**Alfie Nehama**

Partner

Chartered Accountants

Sydney, 23 March 2017

# Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes as set out on pages 53 to 95, 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 2016 and of the performance for the year ended on that date of the consolidated group;
2. The Chief Executive Officer and the Chief Finance Officer have each declared that:
  - The financial records of the company for the financial year have been properly maintained in accordance with s 286 of the Corporations Act 2001;
  - The financial statements and notes for the financial year comply with the Accounting Standards, and
  - The financial statements and notes for the financial year give a true and fair view;
  - That this opinion has been formed on the basis of a sound system of risk management and internal control which are operating effectively;
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



**Mr I Ferrier**

Chairman

Sydney, 23 March 2017

# Consolidated Statement of Profit or Loss

for the year ended 31 December 2016

	Note	Consolidated	
		2016 \$'000	2015 \$'000
			<b>Restated<sup>1</sup></b>
<b>Continuing operations</b>			
<b>Revenue</b>	3	<b>97,759</b>	<b>91,448</b>
Product costs	3	(12,012)	(9,998)
Employee benefits expenses		(34,928)	(31,232)
Share-based payments expenses	3	(373)	(354)
Marketing expenses		(4,256)	(3,483)
Premises and establishment expenses		(2,501)	(2,462)
Depreciation and amortisation of other non-current assets	3	(19,557)	(15,788)
Telecommunications		(877)	(747)
Legal and professional expenses		(1,095)	(786)
Finance costs – bank loans and overdrafts		(2,068)	(2,091)
Other expenses		(6,426)	(5,712)
<b>Profit before income tax</b>		<b>13,666</b>	<b>18,795</b>
Income tax expense	6	(2,674)	(3,714)
<b>Profit for the year</b>		<b>10,992</b>	<b>15,081</b>
Profit attributable to:			
Owners of the parent		10,992	14,577
Non-controlling interest		-	504
		<b>10,992</b>	<b>15,081</b>
<b>Earnings per share</b>		Cents	Cents
Basic Earnings per Share	22	9.8	13.1
Diluted Earnings per Share	22	9.6	13.0

1. Refer note 4 in the accompanying notes.

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

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

	Note	Consolidated	
		2016 \$'000	2015 \$'000
<b>Profit for the year</b>		<b>10,992</b>	<b>15,081</b>
<b>Other comprehensive income, net of income tax</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of foreign operations	21	(4,720)	1,626
Fair value movement on interest rate swap	21	309	69
<b>Total other comprehensive income/(loss), net of income tax</b>		<b>(4,411)</b>	<b>1,695</b>
<b>Total comprehensive income for the year</b>		<b>6,581</b>	<b>16,776</b>
Total comprehensive income attributable to:			
Owners of the parent		6,581	16,272
Non-controlling interest		-	504
		<b>6,581</b>	<b>16,776</b>

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

# Consolidated Statement of Financial Position

as at 31 December 2016

	Note	Consolidated	
		2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	26	1,715	1,641
Trade and other receivables	8	10,340	9,327
Financial assets	14	632	-
Inventories – finished goods		2,791	2,471
Current tax receivables		287	2,032
Other assets	9	2,602	2,156
<b>Total Current Assets</b>		<b>18,367</b>	<b>17,627</b>
<b>Non-Current Assets</b>			
Receivables	8	113	168
Financial assets	14	133	-
Property, plant and equipment	10	2,452	2,485
Deferred tax assets	11	948	193
Intangible assets	12	95,557	89,303
Other assets	9	2,154	1,367
<b>Total Non-Current Assets</b>		<b>101,357</b>	<b>93,516</b>
<b>Total Assets</b>		<b>119,724</b>	<b>111,143</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		7,266	6,113
Borrowings	13	936	-
Provisions	15	3,215	3,048
Deferred revenue		11,712	10,653
<b>Total Current Liabilities</b>		<b>23,129</b>	<b>19,814</b>
<b>Non-Current Liabilities</b>			
Borrowings	13	51,618	49,900
Other financial liabilities	14	-	176
Deferred tax liabilities	17	7,418	6,678
Provisions	15	841	659
<b>Total Non-Current Liabilities</b>		<b>59,877</b>	<b>57,413</b>
<b>Total Liabilities</b>		<b>83,006</b>	<b>77,227</b>
<b>Net Assets</b>		<b>36,718</b>	<b>33,916</b>
<b>Equity</b>			
Issued capital	20	18,707	16,929
Reserves	21	(47,148)	(42,767)
Retained earnings		65,159	59,754
<b>Total Equity</b>		<b>36,718</b>	<b>33,916</b>

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

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	Acquisition of non controlling interest reserve \$'000	Attributable to owners of the parent \$'000
<b>Balance at 1 January 2016</b>	<b>16,929</b>	<b>(42,018)</b>	<b>4,941</b>	<b>638</b>	<b>(176)</b>	<b>59,754</b>	<b>(6,152)</b>	<b>33,916</b>
Profit for the year	–	–	–	–	–	10,992	–	10,992
Other comprehensive income:								
Exchange differences on translation of foreign operations	–	–	(4,720)	–	–	–	–	(4,720)
Fair value movement on interest rate swap	–	–	–	–	309	–	–	309
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>(4,720)</b>	<b>–</b>	<b>309</b>	<b>10,992</b>	<b>–</b>	<b>6,581</b>
Share based payments expense	–	–	–	126	–	–	–	126
Dividends paid (note 27)	–	–	–	–	–	(5,587)	–	(5,587)
Dividend re-investment plan (note 20)	1,682	–	–	–	–	–	–	1,682
Treasury shares vested/lapsed	96	–	–	(96)	–	–	–	–
<b>Balance at 31 December 2016</b>	<b>18,707</b>	<b>(42,018)</b>	<b>221</b>	<b>668</b>	<b>133</b>	<b>65,159</b>	<b>(6,152)</b>	<b>36,718</b>

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



# Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2016

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	Acquisition of non-controlling interest reserve \$'000	Attributable to owners of the parent \$'000	Non-controlling interest \$'000	Total \$'000
<b>Balance at 1 January 2015</b>	<b>17,036</b>	<b>(42,018)</b>	<b>3,315</b>	<b>582</b>	<b>(245)</b>	<b>55,187</b>	<b>(3,788)</b>	<b>30,069</b>	<b>-</b>	<b>30,069</b>
Profit for the year	-	-	-	-	-	14,577	-	14,577	504	15,081
Other comprehensive income:										
Exchange differences on translation of foreign operations	-	-	1,626	-	-	-	-	1,626	-	1,626
Fair value movement on interest rate swap	-	-	-	-	69	-	-	69	-	69
Total comprehensive income	-	-	1,626	-	69	14,577	-	16,272	504	16,776
Share based payments expense	-	-	-	164	-	-	-	164	-	164
Dividends paid (note 27)	-	-	-	-	-	(10,010)	-	(10,010)	-	(10,010)
Treasury shares acquired	(215)	-	-	-	-	-	-	(215)	-	(215)
Treasury shares vested/lapsed	108	-	-	(108)	-	-	-	-	-	-
Transfer to acquisition of non-controlling interest reserve	-	-	-	-	-	-	504	504	(504)	-
Remeasurement of Linden House option liability	-	-	-	-	-	-	(2,868)	(2,868)	-	(2,868)
<b>Balance at 31 December 2015</b>	<b>16,929</b>	<b>(42,018)</b>	<b>4,941</b>	<b>638</b>	<b>(176)</b>	<b>59,754</b>	<b>(6,152)</b>	<b>33,916</b>	<b>-</b>	<b>33,916</b>

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

# Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Note	Consolidated Inflows/(Outflows)	
		2016 \$'000	2015 \$'000
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		105,963	101,138
Payments to suppliers and employees		(73,169)	(62,153)
Interest received		30	43
Interest paid		(2,068)	(2,091)
Income taxes paid		(1,058)	(3,398)
<b>Net cash inflow from operating activities</b>	26(b)	<b>29,698</b>	<b>33,539</b>
<b>Cash Flows From Investing Activities</b>			
Payment for buyout of non-controlling interest		–	(9,032)
Payments for purchase of business	26(c)	(5,785)	–
Proceeds on sale of business		1,250	–
Payment for capitalised development costs		(22,868)	(19,840)
Payment for capitalised internal systems costs		(1,299)	(1,389)
Proceeds from New Zealand government development grant		1,384	1,627
Proceeds from security deposits		–	39
Payment for property, plant and equipment		(942)	(1,152)
<b>Net cash outflow from investing activities</b>		<b>(28,260)</b>	<b>(29,747)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from / (repayment of) borrowings		1,863	6,424
Payment for other financial liabilities		–	(674)
Payment for treasury shares		–	(215)
Dividends paid to owners of the parent	27	(3,905)	(10,010)
<b>Net cash outflow from financing activities</b>		<b>(2,042)</b>	<b>(4,475)</b>
<b>Net Increase / (Decrease) in cash and cash equivalents</b>		<b>(604)</b>	<b>(683)</b>
Cash and cash equivalents at the beginning of the financial year		1,641	2,248
Effects of exchange rate changes on cash and cash equivalents		(113)	76
<b>Cash and cash equivalents at the end of the financial year</b>	26(a)	<b>924</b>	<b>1,641</b>

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

# Notes to the Financial Statements

for the year ended 31 December 2016

## 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 23 March 2017.

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. The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

### Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

### Significant Accounting Policies

#### (a) Basis of consolidation

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

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

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

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

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by

# Notes to the Financial Statements (continued)

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 and share-based payment arrangements are recognised and measured in accordance with the relevant accounting standards; and

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

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

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

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

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

### (c) Depreciation and Amortisation

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

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

### (d) Trade Payables

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

### (e) Contributed Equity

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

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

### (f) Foreign Currency Translation

#### *Functional and presentation currency*

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

#### *Transactions and balances*

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

#### *Group companies*

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

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

# Notes to the Financial Statements (continued)

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

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

## (g) Intangible assets

### *Goodwill*

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

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

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

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

### *Intellectual Property*

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

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

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

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

### *Research and development costs*

Research expenditure is recognised as an expense when incurred.

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

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

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

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

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

## **(h) Income Tax**

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

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

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

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

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

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

## **(i) Inventories**

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

## **(j) Leased Assets**

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

# Notes to the Financial Statements (continued)

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.

## (k) Employee Benefits

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

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

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

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

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

## (l) Receivables

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

## (m) Impairment of assets

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

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

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

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

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



## **(n) Revenue Recognition**

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

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

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

### *Rendering of Services*

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

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

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

### *Interest and Other Revenue*

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

## **(o) Deferred Revenue**

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

## **(p) 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.

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

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

## **(r) Borrowings**

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

# Notes to the Financial Statements (continued)

## (s) 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.

## (t) 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.

## (u) Government Grants

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

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

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

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

## (v) Hedge Accounting

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of derivative financial instruments are disclosed in note 14.

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

The Group designates certain hedging instruments, as cashflow hedges.

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

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

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

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

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

## **(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 component is estimated and then recognised as revenue over the period during which the service is performed.

### *Significant accounting estimates and assumptions*

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

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

Share based payments – the Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. The fair value has been determined using a model that adopts Monte Carlo simulation approach, and the assumptions related to this can be found in Note 19.

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.

# Notes to the Financial Statements (continued)

## (x) New accounting standards not yet effective

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

With the exception of AASB 15 'Revenue from Contracts with Customers' and AASB 16 'Leases', initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the consolidated entity and the Company. The impact, if any, of the adoption of AASB 15 and AASB 16 is currently being assessed.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' (2013, 2014), and the relevant amending standards	1 January 2018	31 December 2018
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15' and AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15'	1 January 2018	31 December 2018
AASB 16 Leases	1 January 2019	31 December 2019

## 2 Segment Information

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

### (a) Business segment information

The consolidated entity is organised into three operating divisions:

- Business Group
- Practice Management Group
- Document Management Group

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

The principal activities of these divisions are as follows:

- Business Group - development, distribution and support of business accounting and personal financial software, as well as related products and services. Products sold in this division include Reckon Accounts and Reckon One.
- Practice Management Group - development, distribution and support of practice management, tax, client accounting and related software under the APS brand as well as the Reckon Docs and Reckon Elite products. Development, distribution and support of cost recovery, cost management, scan and related software under the nQueue Billback brand predominantly to the legal market.
- Document Management Group – development, distribution and support of document management and client portal products under the Virtual Cabinet and SmartVault brands.

Segment revenues and results	2016 \$'000	2015 \$'000
		<b>Restated</b>
<b>Operating revenue</b>		
Business Group	35,555	35,430
Practice Management Group	46,774	45,123
Document Management Group	14,839	9,771
	<u>97,168</u>	<u>90,324</u>
Business sold	561	1,081
	<u>97,729</u>	<u>91,405</u>
Other revenue	30	43
<b>Total revenue</b>	<b><u>97,759</u></b>	<b><u>91,448</u></b>

	2016 \$'000	2016 \$'000	2016 \$'000	2015 \$'000	2015 \$'000	2015 \$'000
	<b>EBITDA</b>	<b>D&amp;A</b>	<b>NPBT</b>	<b>EBITDA</b>	<b>D&amp;A</b>	<b>NPBT</b>
Business Group	19,952	(2,267)	17,685	19,138	(2,118)	17,020
Practice Management Group	19,865	(8,684)	11,181	19,412	(8,732)	10,680
Document Management Group	4,647	(1,368)	3,279	4,694	(1,264)	3,430
	<b>44,464</b>	<b>(12,319)</b>	<b>32,145</b>	<b>43,244</b>	<b>(12,114)</b>	<b>31,130</b>
New market net costs	(5,213)	(7,004)	(12,217)	(2,577)	(3,271)	(5,848)
Central administration costs	(4,676)	-	(4,676)	(4,853)	-	(4,853)
Business sold	686	(234)	452	817	(403)	414
	<u>35,261</u>	<u>(19,557)</u>	<u>15,704</u>	<u>36,631</u>	<u>(15,788)</u>	<u>20,843</u>
Other revenue			30			43
Finance costs			(2,068)			(2,091)
<b>Profit before income tax</b>			<b>13,666</b>			<b>18,795</b>
Income tax expense			(2,674)			(3,714)
<b>Profit for the year</b>			<b><u>10,992</u></b>			<b><u>15,081</u></b>

# Notes to the Financial Statements (continued)

## 2 Segment Information (continued)

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

No single customer contributed 10% or more of Group revenue for either 2016 or 2015.

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

In the prior year nQueue Billback was combined with the Virtual Cabinet business to form the International Group. In 2016 nQueue Billback has been combined with the Accountant Group to form the Practice Management Group, and Virtual Cabinet together with the recently acquired SmartVault business will now form the Document Management Group. The 2015 results have been restated to reflect these changes.

Segment revenues and results	Assets		Liabilities		Additions to non-current assets	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Business Group	21,760	18,614	8,290	5,706	8,890	8,989
Practice Management Group	60,215	59,155	8,176	10,277	9,120	8,861
Document Management Group	32,917	28,404	6,567	4,490	12,218	1,634
Corporate Division	4,832	4,970	59,973	56,754	1,297	1,389
<b>Total of all segments</b>	<b>119,724</b>	<b>111,143</b>	<b>83,006</b>	<b>77,227</b>	<b>31,525</b>	<b>20,873</b>

### (b) Geographical information

	Revenues from external customers		Non-current assets	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Australia	63,665	62,562	59,213	53,961
United States of America	14,978	8,907	14,091	6,537
United Kingdom	11,554	12,784	25,465	27,280
Other countries (i)	7,532	7,152	2,588	5,738
<b>Total of all segments</b>	<b>97,729</b>	<b>91,405</b>	<b>101,357</b>	<b>93,516</b>

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

### 3 Profit for the Year

	Consolidated	
	2016	2015
	\$'000	\$'000
		<b>Restated</b>
Profit before income tax includes the following items of revenue and expense:		
<b>Revenue</b>		
<b>Sales revenue</b>		
Subscription revenue	70,547	63,055
Other recurring revenue	5,367	7,598
Reckon Docs revenue	7,485	7,894
Other revenue	14,330	12,858
Sale of goods and rendering of services	97,729	91,405
<b>Other Revenue</b>		
Interest revenue	30	43
	97,759	91,448
<b>Expenses</b>		
Product costs	12,012	9,998
Bad debt expense:		
Other Entities	88	168
Depreciation of non-current assets:		
Property, plant and equipment	1,017	1,078
Amortisation of non-current assets:		
Leasehold improvements	151	258
Intellectual property	2,378	1,234
Development costs	16,011	13,218
Total depreciation and amortisation	19,557	15,788
Profit on sale of business	392	-
Foreign exchange losses/(gains)	92	(89)
Employee benefits expense:		
Post employment benefits – defined contribution plans	3,025	3,017
Termination benefits	129	88
Share based payments:		
Equity-settled share-based payments	126	164
Cash-settled share-based payments	247	190
	373	354
Operating lease rental expenses:		
Minimum lease payments	2,695	2,416

# Notes to the Financial Statements (continued)

## 4 Change in accounting policy

The Group has amended the manner in which pass through ASIC fees in the Reckon Docs business has been accounted for in 2016. Previously ASIC fees were disclosed in both Reckon Docs revenue and product costs, whereas in 2016 these fees have been eliminated from both. Prior year results have been restated. There is no impact on profits from this change, but in management's opinion, this change allows the Group to report margins in a more meaningful manner and more accurately reflects the performance of the business. The Group has no control over ASIC prices and merely passes these costs through to the customer.

	Revenue \$'000	Product costs \$'000
2015 as previously reported	105,168	23,718
Impact of change in accounting policy	(13,720)	(13,720)
<b>2015 after change in accounting policy</b>	<b>91,448</b>	<b>9,998</b>

## 5 New market expenditure

	Consolidated	
	2016 \$'000	2015 \$'000
Marketing expenses	(2,725)	(1,129)
Employee benefits expense	(5,460)	(908)
Other expenses	(2,698)	(540)
Amortisation of other non-current assets	(7,004)	(3,271)
	<b>(17,887)</b>	<b>(5,848)</b>

Reckon Limited has made substantial investments in establishing and developing Reckon One for both the domestic and international markets as well as establishing the Document Management market in the USA and in Australia and New Zealand. These costs have been expensed through the Consolidated Profit and Loss during the year. Revenue of \$5,670 thousand has been recognised in these markets in 2016.



## 6 Income Tax

	Consolidated	
	2016 \$'000	2015 \$'000
<b>(a) Income tax expense recognised in profit and loss</b>		
Current tax	2,645	2,820
Deferred tax	(15)	1,612
Under /(over) provided in prior years	44	(718)
	<u>2,674</u>	<u>3,714</u>

### **(b) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:**

<b>Profit before income tax</b>	13,666	18,795
Income tax expense calculated at 30% of profit	4,100	5,638
<b>Tax Effect of:</b>		
Effect of lower tax rates on overseas income	(264)	(450)
Tax effect of non-deductible/non-taxable items:		
Research and development claims	(1,064)	(699)
Sundry items	(142)	(57)
	<u>2,630</u>	<u>4,432</u>
Under/(over) provision in prior years	44	(718)
Income tax expense attributable to profit	<u>2,674</u>	<u>3,714</u>

The tax rate used for the 2016 and 2015 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

### **(c) Future income tax benefits not brought to account as an asset:**

Tax losses:		
Revenue	–	–
Capital	2,098	2,098
	<u>2,098</u>	<u>2,098</u>

# Notes to the Financial Statements (continued)

## 7 Remuneration of Auditors

	Consolidated	
	2016	2015
	\$	\$
<b>(a) Deloitte Touche Tohmatsu</b>		

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

Auditing and reviewing of financial reports	233,427	254,275
Tax compliance and other consulting services	154,218	355,814
	<u>387,645</u>	<u>610,089</u>

<b>(b) Other Auditors</b>		
Auditing and reviewing of financial reports	70,239	65,424
Tax compliance services	154,896	101,192
	<u>225,135</u>	<u>166,616</u>
	<u>612,780</u>	<u>776,705</u>

## 8 Trade and Other Receivables

	Consolidated	
	2016 \$'000	2015 \$'000
<b>Current:</b>		
Trade receivables (i)	8,934	7,963
Allowance for doubtful debts	(315)	(311)
	8,619	7,652
Other receivables	1,721	1,675
	10,340	9,327
<b>Non current:</b>		
Trade receivables	53	108
Other receivables	60	60
	113	168

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

Past due 0 – 30 days	1,010	1,291
Past due 31 – 60 days	416	480
Past due 61+ days	1,124	911
Total	2,550	2,682

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

Balance at beginning of the year	311	562
Amounts written off during the year	(88)	(168)
Increase/(reduction) in allowance recognised in the profit and loss	92	(83)
Balance at end of year	315	311

# Notes to the Financial Statements (continued)

## 9 Other Assets

	Consolidated	
	2016 \$'000	2015 \$'000
<b>Current:</b>		
Prepayments	1,967	1,633
Other	635	523
	<u>2,602</u>	<u>2,156</u>
<b>Non current:</b>		
Prepayments	199	234
Other	1,955	1,133
	<u>2,154</u>	<u>1,367</u>

## 10 Property, Plant and Equipment

	Consolidated	
	2016 \$'000	2015 \$'000
<b>Leasehold Improvements</b>		
At cost	2,920	2,663
Less: Accumulated amortisation	(2,528)	(2,371)
Total leasehold improvements	392	292

<b>Plant and equipment</b>		
At cost	10,685	9,471
Less: Accumulated depreciation	(8,625)	(7,278)
Total plant and equipment	2,060	2,193
	2,452	2,485

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Consolidated</b>			
Carrying amount at 1 January 2016	292	2,193	2,485
Additions	251	1,062	1,313
Depreciation/amortisation expense	(151)	(1,195)	(1,346)
Balance at 31 December 2016	392	2,060	2,452

<b>Consolidated</b>			
Carrying amount at 1 January 2015	503	2,284	2,787
Additions	47	1,105	1,152
Depreciation/amortisation expense	(258)	(1,196)	(1,454)
Balance at 31 December 2015	292	2,193	2,485

# Notes to the Financial Statements (continued)

## 11 Deferred Tax Assets

	Consolidated	
	2016 \$'000	2015 \$'000
The balance comprises temporary differences attributable to:		
Recoverable losses	772	-
Doubtful debts	12	9
Employee benefits	99	117
Other provisions	65	67
	<u>948</u>	<u>193</u>

Details of unrecognised deferred tax assets can be found in note 6(c).

Reconciliation:

Opening balance at 1 January	193	185
Credited/(charged) to profit or loss	755	8
Balance at 31 December	<u>948</u>	<u>193</u>

## 12 Intangibles

Intellectual property – at cost (i)	21,535	17,251
Accumulated amortisation	(15,438)	(13,123)
	<u>6,097</u>	<u>4,128</u>
Development costs – at cost	113,380	96,343
Accumulated amortisation	(75,286)	(63,412)
	<u>38,094</u>	<u>32,931</u>
Internal systems – at cost	2,688	1,389
Accumulated amortisation	(939)	(302)
	<u>1,749</u>	<u>1,087</u>
Goodwill – at cost	49,617	51,157
	<u>95,557</u>	<u>89,303</u>

(i) The intellectual property carrying amount comprises of customer contracts of \$1,876 thousand (2015: \$2,495 thousand), brand names of \$562 thousand (2015: \$562 thousand) and other intellectual property of \$3,659 thousand (2015: \$1,071 thousand). The amounts amortised in the current year for customer contracts was \$619 thousand, brand names \$nil and other intellectual property \$1,759 thousand.

	<b>Consolidated</b>	
	2016 \$'000	2015 \$'000

### Impairment test for goodwill

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

Accountant Group	25,765	25,765
nQueue Division	2,738	2,785
Document Management Division	21,114	22,607
	49,617	51,157

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 (2017) period for the Practice Management Group which includes the Accountant Group and the nQueue Division. Subsequent cash flows are projected using constant long term average growth rates of 3% per annum. The value-in-use calculations for the Document Management CGU has been based on the Group's four year plans and constant growth rates of 5% to reflect the early stage of the evolution of this CGU. An average post-tax discount rate of 9.7% (2015: 10.3%) (pre-tax rate: 14%) reflecting assessed risks associated with CGU's has been applied to determine the present value of future cash flow projections for all CGU's. No impairment write-offs have been recognised during the year (2015: nil). Sensitivity analysis performed indicates that if a change in EBITDA reflected in the models were to decrease by up to 15% for the respective CGU's, there would be no impairment.

<b>Consolidated movements in intangibles</b>	<b>Development Costs (including internal systems)</b>			
	<b>Goodwill \$'000</b>	<b>Intellectual Property \$'000</b>	<b>(including internal systems)</b>	<b>Total \$'000</b>
At 1 January 2016	51,157	4,128	34,018	89,303
Additions	-	-	22,961	22,961
Acquisitions	2,155	5,096	-	7,251
Effect of foreign currency exchange differences	(3,695)	(749)	(267)	(4,711)
Disposals	-	-	(858)	(858)
Amortisation charge	-	(2,378)	(16,011)	(18,389)
At 31 December 2016	49,617	6,097	39,843	95,557
At 1 January 2015	49,502	5,362	27,515	82,379
Additions	-	-	19,721	19,721
Effect of foreign currency exchange differences	1,655	-	-	1,655
Amortisation charge	-	(1,234)	(13,218)	(14,452)
At 31 December 2015	51,157	4,128	34,018	89,303

# Notes to the Financial Statements (continued)

## 13 Borrowings

	Consolidated	
	2016 \$'000	2015 \$'000
<b>Current:</b>		
Bank overdraft (i)	791	-
Hire purchase liabilities	145	-
	<u>936</u>	<u>-</u>
<b>Non-current</b>		
Bank borrowings (i)	51,506	49,900
Hire purchase liabilities	112	-
	<u>51,618</u>	<u>49,900</u>

(i) The consolidated entity has increased its bank facilities to \$71 million during the year. The facility comprises variable rate bank overdraft facilities, loan facilities, and bank guarantee and transactional facilities. The loan facilities and \$1m of the bank overdraft facility expires in August 2019 and the remaining facilities are subject to annual review expiring in April 2017. The facility is secured over the Australian, New Zealand and United Kingdom net assets. Reckon has partially hedged the bank borrowings – refer note 14.

2016			
	Bank overdraft \$'000	Loan facility \$'000	Bank guarantee & transaction facility \$'000
The available, used and unused components of the facility at year end is as follows:			
Available	2,000	66,000	3,110
Used	1,516	50,781	1,644
Unused	484	15,219	1,466

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

Available	2,000	66,000	3,110
Used	1,516	50,781	1,644
Unused	484	15,219	1,466

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

0-12 months	791	-	1,644
2-5 years	725	50,781	-
Weighted average interest rate	5.30%	3.23%	-



## 14 Other financial assets/(liabilities)

	Consolidated	
	2016 \$'000	2015 \$'000
<b>Current:</b>		
Loans receivable	632	–
<b>Non-current:</b>		
Derivative that is designated and effective as a hedging instrument carried at fair value (i)	133	(176)

(i) This balance represents an interest rate swap. To reduce the fair value risk of changing interest rates, the Group has entered into a pay-floating receive-fixed interest rate swap. The swap's notional principal is \$26 million and represents 52% of the bank borrowings outstanding at 31 December 2016. The swap reduces to \$25 million in February 2017, then to \$24m in August 2018 and then matures in July/August 2019. The fixed interest rate is 3.28%, and interest rate swaps are settled monthly or quarterly. Within the context of AASB 7, this is classified as a level 2 fair value measurement being derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly.

## 15 Provisions

	Consolidated	
	2016 \$'000	2015 \$'000
<b>Current:</b>		
Employee benefits – annual leave	1,639	1,573
Employee benefits – long service leave	1,576	1,325
Employee benefits – long term incentive	-	116
Surplus premises	-	34
	3,215	3,048
<b>Non-current:</b>		
Employee benefits – long service leave	347	514
Employee benefits – long term incentive	494	145
	841	659

# Notes to the Financial Statements (continued)

## 16 Working Capital Deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of \$4,762 thousand (December 2015: \$2,187 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Net cash inflows from operations for the year were \$29,698 thousand (2015: \$33,539 thousand). Unused bank facilities at balance date total \$17,169 thousand – refer note 13. Also, included in current liabilities is deferred revenue of \$11,712 thousand (December 2015: \$10,653 thousand), settlement of which will involve substantially lower cash flows.

## 17 Deferred Tax Liabilities

	Consolidated	
	2016 \$'000	2015 \$'000
<b>The temporary differences are attributable to:</b>		
Doubtful debts	(36)	(48)
Employee benefits	(1,590)	(1,397)
Sales returns and volume rebates	(10)	(35)
Deferred revenue	(568)	(462)
Difference between book and tax value of non-current assets	11,120	9,587
Other provisions	(1,498)	(967)
	<u>7,418</u>	<u>6,678</u>

Details of unrecognised deferred tax assets can be found in note 6(c)

Reconciliation:

Opening balance at 1 January	6,678	5,058
Charged (credited) to profit or loss	740	1,620
Balance at 31 December	<u>7,418</u>	<u>6,678</u>

## 18 Parent Entity Disclosures

	Parent	
	2016 \$'000	2015 \$'000
<b>Financial position</b>		
Assets		
Current assets	7,856	8,427
Non-current assets	100,473	104,862
	<u>108,329</u>	<u>113,289</u>
Liabilities		
Current liabilities	9,148	8,917
Non-current liabilities	44,599	57,417
	<u>53,747</u>	<u>66,334</u>
Equity		
Share capital	18,707	16,929
Share buyback reserve	(42,018)	(42,018)
Swap hedging reserve	133	(176)
Share based payments reserve	668	638
Acquisition of non-controlling interest reserve	(1,657)	(1,657)
Foreign currency translation reserve	(277)	703
Retained earnings	79,026	72,536
	<u>54,582</u>	<u>46,955</u>
<b>Financial performance</b>		
Profit for the year	12,076	15,960
Other comprehensive income	(671)	703
Total comprehensive income	<u>11,405</u>	<u>16,663</u>
<b>Capital commitments for the acquisition of property, plant and equipment</b>		
Not longer than 1 year	<u>-</u>	<u>-</u>
<b>Other</b>		

Reckon Limited assets have been used as security for the bank facilities set out in note 13.  
The parent entity has no contingent liabilities.

# Notes to the Financial Statements (continued)

## 19 Employee Benefits

### Long-term incentive plan

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

For the performance period 2014-2016, the company's TSR target is the company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the board) over the same period. The initial comparator group was determined by independent advisers and was set out in the Chairman's speech at the Special General Meeting on 20 December 2005. The board reviews the suitability of the comparator group on an ongoing basis. 50% of performance shares or performance rights vest if the initial performance criterion is satisfied. The balance of any offer would vest proportionally on a sliding scale between the median and the third quartile with 100% vesting (capped) if the company's ranking equalled or exceeded the third quartile.

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

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

For the performance period 2015-2017 the remuneration committee changed the benchmark against which the TSR target is measured for both the performance share plan and the share appreciation rights plan. The comparator group of companies has been jettisoned and replaced by the company's TSR performance measured against the performance of the ASX 300 Index over the performance period. Shares or rights will vest at the end of the performance period depending on the company's average TSR over the period relative to the average TSR of the ASX 300 Index. The percentage of shares or rights vested is determined by the proportional difference in these two results.

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

No options were issued during the year (2015: Nil).

1,087,500 (2015: nil) senior executive rights, nil (2015: 747,036) appreciation rights and nil (2015: 158,739) performance shares, were issued during the year. The fair value of senior executive rights issued in 2016 was \$1.13, and the appreciation rights issued in 2015 were 25.3 cents, and the shares issued in 2015 were \$1.70, using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of \$1.46; expected volatility of 30.8%; dividend yield of 4.8%; and a risk free rate of 1.5%. The expense recognised in 2016 for appreciation rights/performance shares was \$373 thousand (2015: \$354 thousand).

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	
			2016	2015	2016	2015	2016	2015
Jan'13	Dec'15	91,740	-	39,166	-	48,352	-	-
Jan'14	Dec'16	101,696	47,521	9,266	44,909	-	-	92,430
Jan'15	Dec'17	121,239	11,047	11,047	-	-	99,145	110,192
Jan'11	Dec'17	112,500	-	10,000	-	-	76,250	76,250
Jan'12	Dec'18	127,500	3,750	10,000	-	-	87,500	91,250
Jan'13	Dec'19	296,250	8,750	25,000	-	-	242,500	251,250
Jan'14	Dec'20	101,250	12,500	10,000	-	-	78,750	91,250
Jan'15	Dec'21	37,500	10,000	10,000	-	-	17,500	27,500

193,894 additional shares have been acquired for future grants.

# Notes to the Financial Statements (continued)

## 19 Employee Benefits (continued)

Appreciation Rights								
Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year		Rights vested during the year		Rights available at the end of the year	
			2016	2015	2016	2015	2016	2015
Jan'13	Dec'15	549,419	-	230,756	-	318,663	-	-
Jan'14	Dec'16	590,625	590,625	-	-	-	-	590,625
Jan'15	Dec'17	747,036	-	-	-	-	747,036	747,036

Senior Executive Rights								
Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year		Rights vested during the year		Rights available at the end of the year	
			2016	2015	2016	2015	2016	2015
Jan'16	Dec'18	1,087,500	-	-	-	-	1,087,500	-

### Short-term incentive plan

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

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

The performance conditions are budgeted targets set for revenue, EBITDA and earnings per share. Actual performance is measured on a sliding scale from 90% to 110% against the budgeted performance of the group to determine the extent to which incentives are paid. The incentive is paid on a sliding scale. Below 90% no incentive is paid. Between 90% and 110% a pro rata increase is paid, capped at 110%. For 2016 there is an overlap of earnings per share as a performance condition for the long term incentive and the short term incentive, but this is expected to change for 2017.

## 20 Issued Capital

	2016		2015	
	No.	\$'000	No.	\$'000
<b>Fully Paid Ordinary Share Capital</b>				
Balance at beginning of financial year	112,084,762	18,842	112,084,762	18,842
Dividend re-investment plan	1,210,070	1,682	-	-
Balance at end of financial year	113,294,832	20,524	112,084,762	18,842
<b>Less Treasury shares</b>				
Balance at beginning of financial year	840,448	1,913	765,714	1,806
Shares purchased in current period	-	-	116,115	215
Lapsed shares utilised	-	-	6,971	-
Shares vested	(44,909)	(96)	(48,352)	(108)
Balance at end of financial year	795,539	1,817	840,448	1,913
Balance at end of financial year net of treasury shares	112,499,293	18,707	111,244,314	16,929

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

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

During the year nil shares were bought back.

No options were exercised during the year.

The Group implemented a dividend re-investment plan in 2016. 1,210,070 shares were issued on 6 April 2016 under this plan.

# Notes to the Financial Statements (continued)

## 21 Reserves

### Nature and purpose of reserves

#### (a) Foreign currency translation reserve

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

#### (b) Swap hedging reserve

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

#### (c) Share buyback reserve

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

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

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

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

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

## 22 Earnings per Share

	Consolidated	
	2016 cents	2015 cents
Basic earnings per share	9.8	13.1
Diluted earnings per share	9.6	13.0
Weighted average number of ordinary shares used in the calculation of basic earnings per share	112,217,898	111,244,314
Weighted average number of ordinary shares and potential ordinary shares (in relation to employee performance shares) used in the calculation of diluted earnings per share	114,064,937	112,084,762

Earnings used in the calculation of earnings per share is \$10,992 thousand (2015: \$14,577 thousand).

## 23 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2016 (2015: Nil).



## 24 Commitments for Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2016 (2015: \$nil).

	Consolidated	
	2016 \$'000	2015 \$'000
<b>(b) Lease Commitments</b>		
<b>Operating Leases</b>		
Within 1 year	2,426	2,096
Later than 1 year and not longer than 5 years	3,491	3,183
Later than 5 years	269	194
	<u>6,186</u>	<u>5,473</u>

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

# Notes to the Financial Statements (continued)

## 25 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2016 %	2015 %
<b>Parent Entity</b>			
Reckon Limited	Australia		
<b>Subsidiaries</b>			
Reckon.com.au Pty Limited*	Australia	0	100
Reckon Australia Pty Limited	Australia	100	100
Reckon Investment Centre Limited*	Australia	0	100
Reckon Online Holdings Pty Limited*	Australia	0	100
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Reckon Accountants Group Pty Limited	Australia	100	100
Reckon Accountants Group Limited	New Zealand	100	100
Reckon One Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
Quickdocs.com.au Pty Limited*	Australia	0	100
Reckon Billback Pty Limited	Australia	100	100
nQueue Billback Limited	United Kingdom	100	100
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	100	100
Reckon Software Limited (formerly Linden House Software Limited)	United Kingdom	100	100
SmartVault Corporation	United States of America	100	0
Reckon Accounts Pte Limited	Singapore	100	100
Reckon Sync Technology Pty Ltd*	Australia	0	100

\* Dormant subsidiaries de-registered during 2016  
All shares held are ordinary shares.

## 26 Notes to the Statement of Cash Flows

	Consolidated	
	2016	2015
	\$'000	\$'000

### (a) Reconciliation of Cash

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

Cash (i)	1,715	1,641
Bank overdraft	(791)	-
	924	1,641

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

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

Profit after income tax	10,992	15,081
Depreciation and amortisation of non-current assets	19,557	15,788
Non-cash employee benefits expense – share based payment	126	164
Profit on sale of business	(392)	-
Increase/(decrease) in current tax liability/asset	1,631	(1,296)
Increase/(decrease) in deferred tax balances	(15)	1,612
Unrealised foreign currency translation amount	154	(106)
(Increase)/decrease in assets net of acquisitions:		
Current receivables	(962)	82
Current inventories	(320)	(292)
Other current assets	(699)	(31)
Non-current receivables	55	510
Non-current other	(787)	(239)
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	613	904
Other current liabilities	(437)	1,285
Other non-current liabilities	182	77
<b>Net cash inflow from operating activities</b>	<b>29,698</b>	<b>33,539</b>

# Notes to the Financial Statements (continued)

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

	Consolidated	
	2016 \$'000	2015 \$'000

### (c) Business acquired

#### SmartVault Corporation

Reckon Limited acquired SmartVault Corporation effective 1 January 2016. SmartVault is a cloud based document management business located in the USA.

Consideration:

Cash paid	5,628	-
Cash acquired	(211)	-
Debt acquired	368	-
Cash	5,785	-

Consideration:

Receivables	430	-
Intellectual property – development and software	5,096	-
Fixed assets	421	-
Trade payables	(654)	-
Deferred revenue	(1,663)	-
Goodwill	2,155	-
	5,785	-

SmartVault Corporation contributed \$4 million of revenue in 2016.

## 27 Dividends – Ordinary Shares

	Consolidated	
	2016 \$'000	2015 \$'000
Final dividend for the year ended 31 December 2015 of 3 cents (2014: 4.75 cents) per share unfranked paid on 6 April 2016. \$1,682 thousand of this dividend was re-invested via the dividend re-investment plan.	3,338	5,284
Interim dividend for the year ended 31 December 2016 of 2 cents per share unfranked (2015: 4.25 cents) paid on 2 September 2016	2,249	4,726
	5,587	10,010
Franking credits available for subsequent financial years based on a tax rate of 30% (2015: 30%)	11	31

The Board has declared an unfranked dividend of 3 cents per share to shareholders on 14 February 2017. The record date for the dividend is 22 February 2017. The aggregate amount of the proposed dividend expected to be paid on 10 March 2017 out of retained profits at 31 December 2016, but not recognised as a liability at the end of the year is \$3,775 thousand. The impact on the franking account balance of unrecognised dividends is \$nil thousand.

## 28 Financial Instruments

### (a) Financial Risk Management Objectives

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

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

### (b) Interest Rate Risk

The group is exposed to interest rate risk on the cash held in bank deposits and on bank borrowings. Cash deposits of \$1,715 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.77% (2015: 0.7%). Interest bearing borrowings by the consolidated entity at the reporting date were \$52,554 thousand (2015: \$49,900 thousand). Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Variable rate borrowings during the year attracted an average interest rate of 5.3% (2015: 6.1%) on overdraft facilities and 2.8% on loan facilities (2015: 4%). 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 \$253 thousand (2015: \$241 thousand).

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

The maturity profile for the consolidated entity's cash (\$1,715 thousand) that is exposed to interest rate risk is one year, and interest bearing borrowings (\$52,554 thousand) that are exposed to interest rate risk, and the interest rate swap is three years. On the assumption that interest bearing borrowings and variable interest rates remain at the current level, the annual interest costs are expected to be \$1,720 million.

Further details are set out in note 14.

# Notes to the Financial Statements (continued)

## 28 Financial Instruments (continued)

### c) Credit Risk

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

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

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

The average credit period on sale of goods is 45 days. Interest is generally not charged. The group 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.

### (d) Foreign Currency Risk

The consolidated entity includes certain subsidiaries whose functional currencies are different to the consolidated entity presentation currency. The main operating entities outside of Australia are based in New Zealand, United States of America and the United Kingdom. These entities transact primarily in their functional currency and, aside from inter-group loan balances, do not have significant foreign currency exposures due to outstanding foreign currency denominated items. The consolidated entity's future reported profits could therefore be impacted by changes in rates of exchange between the Australian Dollar and the New Zealand Dollar, and the Australian Dollar and the US Dollar and the Australian Dollar and the UK Sterling.

### (e) Liquidity

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

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

Further details are set out in notes 13 and 14.

### (f) Capital risk management

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

### (h) Fair Value

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

## 29 Related Party Disclosures

	Consolidated	
	2016	2015
	\$	\$
<b>(a) Key Management Personnel Remuneration</b>		
Short term benefits	3,224,218	3,204,159
Post-employment benefits	187,875	191,362
Share based payments	188,349	290,473
	<u>3,600,442</u>	<u>3,685,994</u>

The names of and positions held by the key management are set out on page 17 of the Remuneration Report. Further details of the remuneration of key management are disclosed in the Remuneration Report.

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

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

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

Refer to the table on page 41 of the Remuneration Report.

## 30 Subsequent Events

Subsequent to the end of the financial year:

On 17 March 2017 the company announced a proposal to de-merge Reckon's Document Management segment (representing approximately 15% of group turnover) under an independent company with shares admitted to trading on the AIM Market of the London Stock Exchange (AIM).

At the time of the writing of the Annual Report these plans are preliminary and conditional, including subject to due diligence and any necessary regulatory approvals. Although the ASX has indicated that shareholder approval is not required.

Shareholders are urged to monitor the ASX company announcements platform for any material updates that the company will announce regarding this proposal.

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

## 31 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 23 March 2017.

# Additional Information as at 15 March 2017 (Unaudited)

## Corporate Governance Statement

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

## Twenty Largest Holders of Quoted Equity Securities

Ordinary Shareholder	Number	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	17,681,216	15.61
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	12,096,412	10.68
NATIONAL NOMINEES LIMITED	8,902,233	7.86
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	7,943,255	7.01
GREGORY JOHN WILKINSON	6,280,487	5.54
CITICORP NOMINEES PTY LIMITED	5,431,195	4.79
MR CLIVE RABIE + MRS KERRY ROSE RABIE	5,107,914	4.51
DJZ INVESTMENTS PTY LIMITED	4,791,224	4.23
BNP PARIBAS NOMINEES PTY LTD	3,418,105	3.02
BOND STREET CUSTODIANS LIMITED	1,431,903	1.26
RAWFORM PTY LTD	1,330,306	1.17
MR STEPHEN JAMES RICKWOOD	1,301,062	1.15
BNP PARIBAS NOMS PTY LTD	1,104,553	0.97
MR CLIVE ALAN RABIE	1,091,051	0.96
MR PHILIP ROSS HAYMAN	809,542	0.71
RECKON AUSTRALIA PTY LTD	798,864	0.71
BNP PARIBAS NOMINEES PTY LTD	643,300	0.57
BNP PARIBAS NOMS (NZ) LTD	591,421	0.52
VANWARD INVESTMENTS LIMITED	581,982	0.51
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	549,130	0.48
	81,769,040	72.28



## Number of Holders of Equity Securities

### Ordinary Share Capital

113,294,832 fully paid ordinary shares are held by 4,216 individual shareholders as at 15 March 2017. 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 182.

## Distribution of Holders of Equity Securities

As at 15 March 2017

Number of Ordinary Shares	Number of Shareholders
1 – 1,000	1,011
1,001 – 5,000	1,972
5,001 – 10,000	657
10,001 – 100,000	522
100,001 and over	54
Total	4,216

## Substantial Shareholders

As at 15 March 2017

### (a) From Twenty Largest holders of Quoted Equity Securities

Ordinary Shareholder	Number	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	17,681,216	15.61
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	12,096,412	10.68
MR CLIVE ALAN RABIE	11,123,189	9.82
NATIONAL NOMINEES LIMITED	8,902,233	7.86
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	7,943,255	7.01
GREGORY JOHN WILKINSON	7,610,793	6.72

### (b) As disclosed to ASX

	Ordinary Shares	Percentage
Forager Funds Management Pty Ltd	8,400,600	7.41
Wilson Asset Management Group	7,890,215	6.96
Australian Ethical Investment Limited	7,428,465	6.56
Microequities Asset Management Pty Ltd	5,689,261	5.02
NovaPort Capital Pty Ltd	5,670,500	5.01

# Additional Information as at 15 March 2017 (Unaudited) (continued)

## Principal Registered Office

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

## Principal Administration Office

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

## Share Registry

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

## Stock Exchange Listings

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

## Auditors

Deloitte Touche Tohmatsu  
225 George Street  
Sydney NSW 2000

## Company Secretary

Mr Myron Zlotnick

## Annual General Meeting

The Annual General Meeting for Reckon Limited will be held on **Wednesday 24 May 2016 at 10:00am** at **Level 12, 65 Berry Street, North Sydney, NSW**. If you are unable to attend, you are invited to complete the Proxy Form included with your Notice of Meeting. The completed Proxy Form must be received no later than 48 hours before the Annual General Meeting.

## Important Information – Corporate Notices

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

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

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

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

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

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

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