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## CHAIRMAN'S REPORT

Fronde Systems Group has substantially lifted performance in the first half of the year, with revenue 45% higher at \$32.0m and profit of \$1.65m which is 421% higher than the equivalent period last year. This improvement is due to the turnaround in performance of our Australian operation, substantial growth in our Wellington professional services business and continued strong growth in the newer parts of our business – Google, Salesforce and Amazon.

Cash improved in line with increased profitability and sits at \$2.55m at the end of September. The company's working capital position keeps improving, however demand for working capital is also growing with the continued top line growth. Within the period there was a substantial increase in bank borrowing of \$1.3m to fund the buy-back of the ANZ National Bank held Fronde shares and to fund a multi-year customer transaction.

As discussed with Shareholders at the AGM in July, Fronde is seeking an additional director to add depth, diversity and experience. Alongside this recruitment process, I am taking the opportunity to flag my intention to step down from the chair on the appointment of a suitable chairman designate to the board. This is for personal reasons, allowing me to spend more time out of Wellington. I look forward to continuing to serve the company as a director.

The board wishes to thank management and staff for an outstanding first half year performance and congratulate them on their achievement to date.



**Wayne Norrie** Chairman

# CHIEF EXECUTIVE'S REPORT

## Operational Focus

Fronde commenced this financial year with a focus on building our brand, retooling and preparing to scale. We have made considerable advances in the areas of retooling and preparing to scale by improving the quality and repeatability of our internal processes, and by adding extra sales capacity into all of our offices. Our brand building activity was less of a priority while we secured a new leader for our marketing area. For the remainder of the financial year there will be much more emphasis on marketing activities to build our brand and increase qualified sales leads.

## Operational Performance

We continue to reinforce our competitive positioning around cloud integration, leading with our partner brands and supported by our deep integration pedigree. This positioning and capability is becoming increasingly relevant as clients make decisions about how to leverage cloud computing, how it supports enterprise transformation, and how that interacts with remaining on-premise applications.

Revenue growth has been particularly strong in the period with growth occurring in most markets. Services growth has been much stronger than planned, meaning a commensurate increase in staffing levels, however we are also enjoying strong product growth and annuity revenue growth in both services and products.

Our Australian business has become profitable this year though it is yet to reach critical mass. Significant effort is going into building the opportunity pipeline and supporting key clients with critical projects. Wellington is growing very strongly with increased services business and increasing Google business. We are also supporting a growing number of South Island clients from this office. The Auckland business is trading profitably and growing at a slower rate than the rest of the business. This is the market where our cloud integration strategy has the most opportunity and where some of our best case studies have been created.

Google continues to be a very important part of our growth story and is providing a source of innovation to both new and existing customers. During the period we became an Amazon Web Services partner, recognising the significant benefits this provides for our clients, and increased opportunity to leverage Amazon's continued investment into Australasia.

As we prepare to scale for growth we continue to build capacity and capability, this will allow Fronde to take a step forward on the scale and scope of client engagements. By re-tooling, revising and re-organising our processes we will improve the way we deliver, making sure we honour our purpose to deliver transformational outcomes.



Fronde has been congratulated externally for its efforts this year. Our results in this year's Kenexa Best Workplaces survey has seen an improvement in all measures, particularly "sense of common purpose", and are runners-up for the most improved in the medium to large employer category. This follows an increased focus on staff engagement, which will continue as the management team remain committed to see Fronde measured as one of New Zealand's best places to work. In October Fronde was also acknowledged in the New Zealand technology industry TIN100 report as number three in their "Ten Companies to Watch" list. This list is made up of the highest dollar value growth companies in the TIN100 and saw Fronde jump from 49th to 36th place overall.

As we continue to experience growth and improved margins the outlook for the remainder of the year points to continue this trend. However there is still a lot to be done.

Supported by the superb effort from all Fronde staff, we will work hard to further grow and strengthen the company. My sincere thanks to all of our committed staff and customers for contributing to our continued success.

A handwritten signature in black ink that reads "Ian Clarke". The signature is written in a cursive, slightly slanted style.

**Ian Clarke** CEO

# STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2012

	Note	Group Unaudited half year ended 30-Sep-12 \$000	Group Unaudited half year ended 30-Sep-11 \$000	Group Audited year ended 31-Mar-12 \$000
Revenue	3	32,002	22,083	47,550
Cost of sales		(23,875)	(16,361)	(34,882)
<b>Gross profit</b>		<b>8,127</b>	<b>5,722</b>	<b>12,668</b>
Expenditure		(5,909)	(5,234)	(10,662)
Finance costs	3	(47)	(26)	(102)
<b>Profit before income tax expense</b>		<b>2,171</b>	<b>462</b>	<b>1,904</b>
Income tax expense		(521)	(145)	(834)
<b>Profit for the period</b>		<b>1,650</b>	<b>317</b>	<b>1,070</b>
<b>Other Comprehensive Income</b>				
Gains/(losses) from:				
Translation of foreign operations		(9)	(83)	(28)
Other comprehensive income for the year net of tax		(9)	(83)	(28)
<b>Total comprehensive income for the year net of tax</b>		<b>1,641</b>	<b>234</b>	<b>1,042</b>
<b>Earnings per share:</b>				
Basic and diluted		23.09	3.99	13.47
(cents per share, based on profit after tax)				

This Statement is to be read in conjunction with the Notes to the Financial Statements.



# STATEMENT OF FINANCIAL POSITION

As at 30 September 2012

	Group Unaudited half year ended 30-Sep-12 \$000	Group Unaudited half year ended 30-Sep-11 \$000	Group Audited year ended 31-Mar-12 \$000
<b>Assets</b>			
Current assets	11,703	8,713	8,172
Non-current assets	1,862	1,355	1,513
<b>Total assets</b>	<b>13,565</b>	<b>10,068</b>	<b>9,685</b>
<b>Liabilities</b>			
Current liabilities	9,794	8,482	7,698
Non-current liabilities	719	156	72
<b>Total liabilities</b>	<b>10,513</b>	<b>8,638</b>	<b>7,770</b>
<b>Net assets</b>	<b>3,052</b>	<b>1,430</b>	<b>1,915</b>
<b>Equity</b>			
Issued share capital	5,036	5,536	5,536
Retained earnings	(1,810)	(3,886)	(3,456)
Reserves	(174)	(220)	(165)
<b>Total equity</b>	<b>3,052</b>	<b>1,430</b>	<b>1,915</b>
<b>Total equity and liabilities</b>	<b>13,565</b>	<b>10,068</b>	<b>9,685</b>

This Statement is to be read in conjunction with the Notes to the Financial Statements.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2012

	Group Unaudited half year ended 30-Sep-12 \$000	Group Unaudited half year ended 30-Sep-11 \$000	Group Audited year ended 31-Mar-12 \$000
<b>Equity at the beginning of the period</b>	1,915	1,195	1,195
Profit on ordinary activities after taxation	1,650	317	1,070
Movement in foreign currency translation reserve	(9)	(83)	(28)
<b>Total comprehensive income for the year, net of tax</b>	<b>1,641</b>	<b>234</b>	<b>1,042</b>
Dividend on ordinary shares	(4)	-	(322)
Share repurchase	4 (500)	-	-
<b>Equity at the end of the period</b>	<b>3,052</b>	<b>1,429</b>	<b>1,915</b>

This Statement is to be read in conjunction with the Notes to the Financial Statements.



# CASH FLOW STATEMENT

For the year ended 30 September 2012

	Note	Group Unaudited half year ended 30-Sep-12 \$000	Group Unaudited half year ended 30-Sep-11 \$000	Group Audited year ended 31-Mar-12 \$000
<b>Cash flows from operating activities</b>				
Operating cash inflows		31,617	20,518	45,882
Operating cash outflows		(29,578)	(19,433)	(44,981)
<b>Net cash inflows from operating activities</b>	<b>2</b>	<b>2,039</b>	<b>1,085</b>	<b>901</b>
<b>Cash flows from investing activities</b>				
Investing cash inflows		-	16	16
Investing cash outflows		(723)	(421)	(830)
<b>Net cash outflows from investing activities</b>		<b>(723)</b>	<b>(405)</b>	<b>(814)</b>
<b>Cash flows from financing activities</b>				
Financing cash inflows		1,355	-	-
Financing cash outflows		(872)	(343)	(358)
<b>Net cash outflows from financing activities</b>		<b>483</b>	<b>(343)</b>	<b>(358)</b>
Net increase in cash and cash equivalents		1,799	337	(271)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>762</b>	<b>1,061</b>	<b>1,061</b>
Foreign exchange effects		(9)	(83)	(28)
<b>Cash and cash equivalents at the end of the period</b>		<b>2,552</b>	<b>1,315</b>	<b>762</b>

This Statement is to be read in conjunction with the Notes to the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Basis of Preparation

Fronde Systems Group Limited (the 'Parent') is registered under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993.

The Parent and its subsidiaries comprise the Fronde Group (the 'Group'). The Parent is not an 'exempt company' under the Companies Act 1993.

The Group is a profit-oriented entity and its consolidated financial statements have been prepared in accordance with NZ IAS 34 'Interim Financial Reporting' and other applicable reporting standards.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with the accounting policies and methods of computation used in the preparation of the comparative figures.

These interim financial statements should be read in conjunction with the financial statements and related notes contained in the Group's audited Annual Report for the year ended 31 March 2012.



## 2. Reconciliation of profit for the period to net cash flows from operating activities

	Group Unaudited half year ended 30-Sep-12 \$000	Group Unaudited half year ended 30-Sep-11 \$000	Group Audited year ended 31-Mar-12 \$000
Profit/(loss) after tax for the period	1,650	317	1,070
<b><i>Add/(less) non-cash items and non-operating items</i></b>			
(Gain)/Loss on disposal of non-current assets	-	(16)	(16)
Depreciation and amortisation of non-current assets	303	197	443
Increase in current tax balances	515	132	424
(Increase) / decrease in deferred tax balances	-	2	(53)
<b><i>Impact of changes in working capital items</i></b>			
Decrease/(increase) in current receivables	(697)	(1,591)	(1,950)
Decrease/(increase) in other current assets	(982)	(394)	(86)
(Decrease)/increase in current payables	2,028	2,300	581
(Decrease)/increase in other liabilities	(778)	138	488
Net cash inflow from operating activities	2,039	1,085	901

### 3. Interest

	<b>Group Unaudited half year ended 30-Sep-12 \$000</b>	<b>Group Unaudited half year ended 30-Sep-11 \$000</b>	<b>Group Audited year ended 31-Mar-12 \$000</b>
<b>Included in revenue:</b>			
Interest received	49	4	5
<b>Included in finance costs:</b>			
Interest paid	47	26	102

### 4. Share repurchase

On 30 June 2012 Fronde repurchased and cancelled 800,000 Fronde Systems Group Limited shares from ANZ National Bank Limited for a total consideration of \$500,000 (62.5c per share). To facilitate the repurchase Fronde entered into a term loan agreement for \$500,000 from ANZ National Bank Limited repayable over 3 years.



## 5. Segment Reporting

### Operating segments

Results are reported for four segments, being the Group's main geographical areas of operations and a "Corporate and other" amount containing revenues and expenses that were not allocated to any other operating segment. This change from previous years more accurately reflects the information used by the Chief Operating Decision Maker in managing the allocation of resources to the business. Disclosure of revenues, earnings before taxation and expenses on a segment basis is set out below and is consistent with the format of reporting presented to the Chief Operating Decision Maker. Inter-segment sales are priced on an arms-length basis.

The information presented to the Chief Operating Decision Maker does not include balance sheets separated to the level of segments. Balance sheet information is reported at the level of Parent and Group to the Chief Operating Decision Maker and is therefore not presented below.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

<b>Unaudited as at and for the period ended 30 September 2012</b>	<b>NZ North</b>	<b>NZ South</b>	<b>Australia</b>	<b>Corporate and other</b>	<b>Eliminations</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Operating revenue and other income</b>						
External customers	2,865	24,316	4,797	24	-	32,002
Internal customers	22	543	-	8	(573)	-
<b>Total Revenue</b>	<b>2,887</b>	<b>24,859</b>	<b>4,797</b>	<b>32</b>	<b>(573)</b>	<b>32,002</b>
<b>Profit before taxation</b>	<b>430</b>	<b>3,934</b>	<b>301</b>	<b>(2,494)</b>	<b>-</b>	<b>2,171</b>
Interest revenue	-	-	30	19	-	49
Interest expense	-	-	(15)	(32)	-	(47)
Depreciation and amortisation	(6)	(262)	(1)	(34)	-	(303)
Income tax	-	-	-	(521)	-	(521)
<b>Unaudited as at and for the period ended 30 September 2011</b>	<b>NZ North</b>	<b>NZ South</b>	<b>Australia</b>	<b>Corporate and other</b>	<b>Eliminations</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Operating revenue and other income</b>						
External customers	3,441	16,638	2,000	4	-	22,083
Internal customers	-	194	-	7	(201)	-
<b>Total Revenue</b>	<b>3,441</b>	<b>16,832</b>	<b>2,000</b>	<b>11</b>	<b>(201)</b>	<b>22,083</b>
<b>Profit before taxation</b>	<b>859</b>	<b>2,159</b>	<b>(468)</b>	<b>(2,088)</b>	<b>-</b>	<b>462</b>
Interest revenue	-	-	-	4	-	4
Interest expense	-	-	-	(26)	-	(26)
Depreciation and amortisation	(3)	(191)	(1)	(2)	-	(197)
Income tax	-	-	-	(145)	-	(145)

Audited as at and for the period ended 31 March 2012	NZ North \$000	NZ South \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total \$000
<b>Operating revenue and other income</b>						
External customers	6,358	36,549	4,637	6	-	47,550
Internal customers	90	259	-	14	(363)	-
<b>Total Revenue</b>	<b>6,448</b>	<b>36,808</b>	<b>4,637</b>	<b>20</b>	<b>(363)</b>	<b>47,550</b>
<b>Earnings before taxation</b>	<b>1,384</b>	<b>5,492</b>	<b>(942)</b>	<b>(4,030)</b>	<b>-</b>	<b>1,904</b>
Interest revenue	-	-	-	5	-	5
Interest expense	-	-	-	(102)	-	(102)
Depreciation and amortisation	(8)	(401)	(3)	(31)	-	(443)
Income tax	-	-	-	(834)	-	(834)

## 6. Contingent liabilities

There were no contingent liabilities as at 30 September 2012 (30 September 2011: nil; 31 March 2012: nil)

## 7. Significant events after reporting date

There are no other events subsequent to the balance date requiring disclosure in the financial statements.

