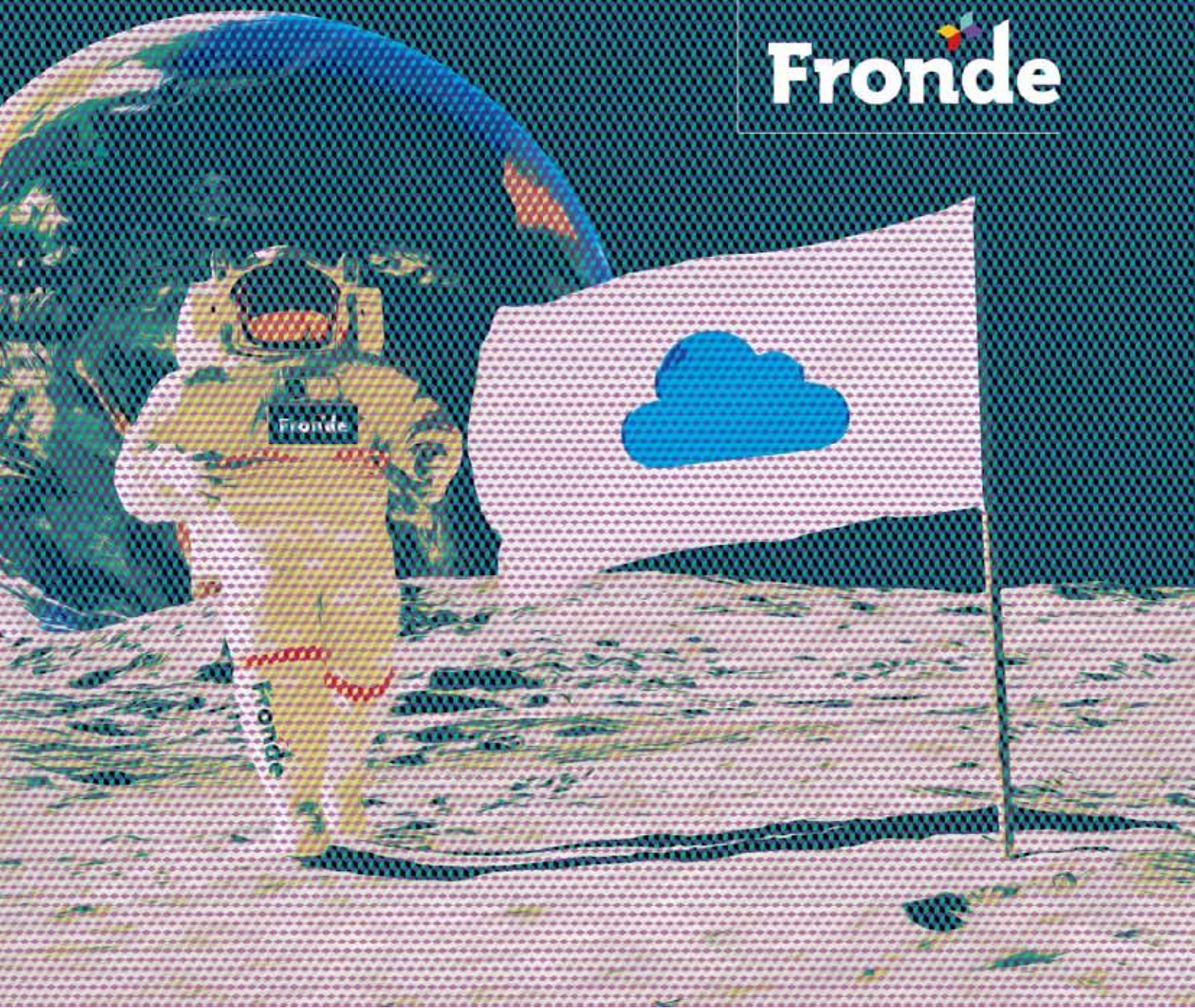


2014

Annual Report

Fronde Systems Group Limited
Annual Report
For the year ended
31 March 2014


Fronde



Group Directory

Company Number

528567

Registered Office/Principal Place of Business

3 Queens Wharf

Wellington

Telephone +64 4 499 3000

Facsimile +64 4 460 5703

Website www.fronde.com

Directors

C Burton (appointed 29 August 2013)

G Cross

DW Irving

SL Maier Jr

W Norrie

Jl Mayson (Chairman)

Auditor

Deloitte

10 Brandon St

Wellington

Solicitor

Quigg Partners

The Bayleys Building

28 Brandon St

Wellington

Banker

ANZ National Bank Limited

215 – 229 Lambton Quay

Wellington

Share Registry

Link Market Services

138 Tancred Street

Ashburton

Unlisted Market Stock Code

FSG

www.unlisted.co.nz

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Directors' Report

The Directors present the Financial Statements of Fronde Systems Group Limited for the year ended 31 March 2014.

For and on behalf of the Board on 2 July 2014.



J Mayson
Chairman



SL Maier Jr
Director

Chairman's Report

The year ended 31 March 2014 saw a drop in the rate of growth enjoyed in prior years and a reduction in profitability. Total revenue for the period was \$62.6 million, a 4.6% increase over the prior years' results of \$59.9 million, well below the average 34% annual revenue growth of the past three years.

Earnings Before Interest and Tax (EBIT) was \$1.5 million compared to \$4.0 million in 2013. This includes a non-cash unrealised foreign exchange loss of \$0.4 million created by the strengthening of the New Zealand dollar against the Australian dollar. Net profit was down at \$0.8 million compared to the \$2.7 million for the 2013 period, while gross profit was \$15.5 million, down from the previous years' \$16.1 million.


The balance of cash and cash equivalents on the Balance Sheet has decreased by \$3.0 million, mainly due to the cash acquisition of an Australian company (\$1.3 million) and to repayment of debt (\$0.7 million). Fronde successfully recycled capital with its sale of mobile messaging platform, Message Direct. While a valuable and performing asset, Message Direct was viewed as a non-strategic part of the business and the capital released is available to support further investment.

The slowed rate of growth and lower profitability were a result of substantially increased investment, a large portion of which was expensed, as well as weaker performance from our Wellington and Australian business. Investments were made by acquisition in Australia, a 50% headcount increase in our sales force, a new Inside Sales function, creation of a new Executive Leadership Team, increased marketing capability and capacity, product development and process improvement. All of those investments are expected to generate returns in the new financial year and continued growth of investment will be required to accelerate growth to reach its potential.

Integration of OnlineOne, the company Fronde acquired in Australia in May last year, has taken more time, effort and cost than expected, creating a substantially lower performance in our Australian business than last year. This business generated a loss (including the non-cash unrealised foreign exchange loss) of NZ\$1.8 million against a profit of NZ\$0.1 million in the prior period. The monthly performance and trends of the business in the last few months of the financial year show it is on target to support the investment case for acquiring the company. As such your directors have determined not to impair the acquired asset in the financial statements.

Although affected by a slowdown in the Wellington market, the New Zealand business performance has been balanced by a very strong improvement in our Auckland operation. This is a result of significant investment in marketing activity to the Enterprise sector, both directly to promote the Fronde brand and also in association with our partners. The new financial year's marketing programme will see Fronde better positioned and differentiated within our markets, and we expect similar business growth benefits from increased levels of investment.

Your Chairman welcomed new director Celia Burton to the Board at the AGM in August last year. Your directors continue to explore avenues to secure growth capital in support of the company strategy. On behalf of the Board I want to thank management for their effort last year, a year where we did not achieve our financial goals. We have, however, added considerable capacity and capability to drive future growth and value.



J Mayson
Chairman

Chief Executive's Report

In February, Fronde created a new Executive Leadership team, consisting of: CEO, Ian Clarke; Country Manager Australia, Don McLean; Chief Financial Officer, Amish Vallabh; Chief Marketing Officer, David Roberts; Chief Technology Officer, James Valentine; as well as new additions to the company, Country Manager New Zealand, Gary Woodham, and Jan Mottram as Fronde's HR Director. The team was created to bring particular skills into the leadership team of the company as well as to create capacity among the leaders to drive the next phase of growth.

In May 2013 Fronde acquired the assets of OnlineOne as was reported in the last mid-year report. The integration of this business with the existing Fronde Australia business has taken longer than planned to produce the required results. By the end of the financial year the merged Australian company was delivering the month by month results that are required to support the business case for the acquisition. That recent upturn in sales pipeline growth, sales closed and revenue booked has not been enough to achieve the profitability targets we planned for in the past year.

Key factors in the delay was the loss of two thirds of the sales team in the first few months as well as the complexity of our large Australian customers and some problematic projects. Critical steps taken include rebuilding a sales team of eight, including sales engineers and an Inside Sales function. The Inside Sales team build and maintain our client database to make sure it is current, secure attendance at Fronde and partner events, secure attendance at webinars, and nurture a relationship with clients or potential clients. In quarter one of the new year we completed a project to leverage digital assets such as our website by way of our marketing automation engine.

One of the attractive features of OnlineOne was their two-year use of a small team of Manila-based developers and consequent experience in doing this. Fronde is now building on this capability to address the shortfall in skilled labour we see across our business. Benefits of building a technical delivery capability in Manila include availability of skilled resources when we need them and an attractive cost of project delivery.

Fronde has also increased sales capacity in Auckland to support the increased lead generation activity created by the marketing effort there over the last 18 months. This effort has resulted in strong growth in the Auckland business where revenue grew 31% last year. Our continuing strategy is to drive hard into enterprise and corporate markets where our partner cloud brands find more ready acceptance and where budget constraints are less apparent than in central government. We see a similar dynamic and potential across all of our enterprise dominated markets, particularly Sydney but also Melbourne.

The Wellington business, although subdued in comparison to last year due to constrained spending by our Wellington clients, is expected to see substantial organic growth opportunities in the coming years as central government adopts public cloud and as IT budgets become less constrained. During the year we secured a syndicated contract for Salesforce in a major government agency, meaning that any other agency can now contract with Fronde for Salesforce services. Central government has a drive to standardise use of IT technology meaning that over time there will be a decline in customer software development.

The recycling of capital by the divestment of the non-strategic messaging business, Message Direct, resulted in \$1.7 million to the bottom-line and enables Fronde to continue to invest in the strategy. The transition of services for our clients has been seamless as Fronde continues to support those clients on contract to Soprano, the buyer. Our clients will now get the benefits of access to all Soprano's enterprise messaging services and ongoing product innovation.

Fronde is seeing a number of opportunities to build products on our partner's platforms. Two examples are Te Aranui, a venture with Gisborne Iwi Ngai Tamanuhiri and other Maori interests, and Fronde Cloud Workspace. Te Aranui enables Iwi to effectively register, communicate with and provide benefits to Iwi members, as well as providing a comprehensive and accessible repository for all historical material. It provides for interaction, surveying and campaigns in a secure space using AWS and Salesforce technologies. Cloud Workspace provides Fronde with a product to help clients deliver anywhere, anytime, on any device, computing to their staff. It integrates Citrix, AWS

and Google products and when fully implemented enables clients to utilise Google Chrome and Google Apps for substantive cost savings.

Fronde joined the Citrix Partner Programme as a consequence developing Cloud Workspace, and Citrix are assisting with marketing of the product in New Zealand and Australia. There have been many successes with our partner brands, including gaining two NetSuite Certified Consultants and gaining the highest Salesforce Technical Certification. In addition Fronde was also awarded the “Google JAPAC Special Contribution Award 2013 for Search” at the Annual Global Google Enterprise Partner Summit in San Francisco, CA, and announced as an Amazon Advanced Consulting Partner and Channel Reseller Partner in the AWS Partner Network.

To give effect to the market positioning Fronde has achieved over the past five years and to create space from our competitors Fronde has invested in a significant change process, firstly involving creating clarity of purpose then creating messaging which truly differentiates Fronde as a leader. This messaging is around Liberation and the company purpose is “To liberate Business and Government from IT Constraints, Fuelling Innovation and Efficiency”. We have structured our products and services around the areas of the IT market that we want to liberate and have embraced Challenger Sales as our method for engaging with customers. These changes are supported by a marketing automation engine, Marketo, and substantive improvements to our Salesforce instance. Using these tools we will become a metric driven organisation with much greater insight into and control over the drivers of growth for the company.

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

Ian Clarke

CEO

Liberation starts with Fronde

The new IT mandate seeks to eliminate the constraints of legacy IT systems while improving competitiveness in order to drive growth. In parallel, New Zealand's Government is going through a revolution to deliver better public services through simplification and cost reduction. The digital agenda spans both government and business and is causing them to embrace the cloud. Cloud solutions level the playing field, drive competitiveness and eliminate the need for costly and constraining IT infrastructure.

IT executives face unprecedented change and challenge. Called to manage their technology estate in the face of global cloud traffic increasing 12-fold by 2015 and strong demand for mobilisation of IT where 50% of enterprise email users will rely on a browser, tablet or mobile client by 2016. The status quo is simply not sustainable. Organisations are placing ever-increasing demands on IT, yet IT resources are not growing to meet those demands. Time is being called on traditional IT models.

Today, approximately 80% of organisations' technology spend is allocated to running and managing legacy systems, or "keeping the lights on." The cloud era demands more - a new approach to how technology is designed, engineered, architected, deployed, managed and supported.

Our view and vision are clear. People, processes and technology have the ability to liberate business and government from legacy IT, fuelling unprecedented innovation and efficiency. The result? 40% of IT dollars can now be available for innovation, information-fuelling insights and business agility, workers empowered by technology and the cloud, customer experience redefined by CRM platforms, and back-office systems are agile and available.

IT shouldn't constrain your business - IT should liberate it.

Liberation. What does it mean?

- Enables organisations to easily adopt and integrate Cloud and new technologies
- Frees dollars from legacy investments to innovation
- Mobilises workers to be productive anyplace, anytime on any device
- Secures and frees data to be at your service rather than in your silos
- Delivers agility and flexibility to meet today's and tomorrow's needs
- Moves fixed CAPEX and OPEX to be flexible
- Assures IT that it can embrace both revolutionary and evolutionary strategies

What gets liberated?

The cloud era is opening up extraordinary opportunities for customers to rethink and recharge their computing infrastructure. Committing to liberating IT can reduce the cost of "keeping the IT lights on" and allocate a much larger percentage of resources to innovation.

TECHNOLOGY TO TRANSFORM BUSINESS

90% of CEOs believe that technological advances will transform their business the most over the next five years.

PwC Global CEO Survey 2014

Freeing IT to perform is why Fronde is committed to delivering solutions that are, without compromise, open, agile, and affordable - and it's what will enable us to help organisations achieve:

- ◆ **WORKFORCE LIBERATION:** Increase workforce mobility and productivity, reduce infrastructure and service costs.
- ◆ **CUSTOMER LIBERATION:** Improve customer experience. Integrate sales and marketing. Improve data.
- ◆ **DATA CENTRE LIBERATION:** Create a flexible IT environment. Redefine IT economics. Improve performance and scalability.
- ◆ **DATA LIBERATION:** Instantly access the data you need, when you need it. Improve insights and productivity.
- ◆ **OPERATIONS LIBERATION:** Improve decision making and insights. Lower operating costs.

Solutions in service of our clients' businesses, all designed, built, deployed and managed by Fronde. Technology is in rapid transformation and that's why Fronde's strategic partners are specifically chosen for their ongoing ability to develop some of the most innovative business tools in the market today. Google, Salesforce, Amazon Web Services and NetSuite provide the cornerstone cloud solutions that enable Fronde to liberate its clients from a legacy IT cost economics and poor agility.

Fronde's deep heritage as a respected technology provider with 22 years of outstanding projects is the critical enabler for our vision. To deliver one solution in service of our clients we must be the first choice for thought leadership, integration, and development. Our clients know us for delivering transformational outcomes through our outstanding team of people in the strategy services, system management, system integration, and professional services teams.

Our purpose is to liberate organisations to pursue new levels of innovation and efficiency by delivering open, agile, and affordable solutions. Now isn't that liberating?

LOOK TO THE CLOUD

The use of cloud computing is growing, and by 2016 this growth will increase to become the bulk of new IT. Nearly half of large enterprises will have hybrid cloud deployments by the end of 2017.

Gartner 2013

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF FRONDE SYSTEMS GROUP LIMITED

Report on the Summary Financial Statements

The accompanying summary financial statements of Fronde Systems Group Limited and Group (the "Group") on pages 10 to 13, which comprise the summary statement of financial position as at 31 March 2014, and the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of the Group for the year ended 31 March 2014. We expressed an unmodified audit opinion on those financial statements in our report dated 2 July 2014.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Group.

Board of Directors' Responsibility for the Summary Financial Statements

The Board of Directors' are responsible for the preparation of a summary of the audited financial statements, in accordance with FRS-43: Summary Financial Statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (New Zealand) (ISA (NZ)) 810: Engagements to Report on Summary Financial Statements.

Other than in our capacity as auditor, we have no relationship with or interests in Fronde Systems Group Limited or any of its subsidiaries.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the Group for the year ended 31 March 2014 are consistent, in all material respects, with those financial statements, in accordance with FRS-43: Summary Financial Statements.



Chartered Accountants

2 July 2014

Wellington, New Zealand

Summary Statement of Comprehensive Income

For the year ended 31 March 2014

	Group	
	2014	2013
	\$000	\$000
Revenue	62,653	59,906
Cost of sales	(47,136)	(43,782)
Gross profit	15,517	16,124
Profit from disposal of property	1,692	-
Profit from disposal of property	1,692	-
Other expenses	(648)	(93)
Expenditure	(15,028)	(12,070)
Finance costs	(188)	(160)
Total Expenses	(15,864)	(12,323)
Profit before income tax expense	1,345	3,801
Income tax expense	(488)	(1,064)
Profit for the period	857	2,737
Other comprehensive income		
Losses from:		
Translation of foreign operations	389	2
Other comprehensive income for the year net of tax	389	2
Total comprehensive income for the year net of tax	1,246	2,739
Profit attributable to:		
Members of the parent entity	857	2,737
	857	2,737
Earnings per share:		
Basic and diluted (cents per share)	11.99	37.27

A copy of the full financial statements can be obtained from Fronde's registered office.

Summary Statement of Financial Position

As at 31 March 2014

	Group	
	2014	2013
	\$000	\$000
Assets		
Current Assets	12,504	12,994
Non-current Assets	2,747	1,668
Total Assets	15,251	14,662
Liabilities		
Current Liabilities	10,072	9,899
Non-current Liabilities	42	609
Total Liabilities	10,114	10,508
Net assets	5,137	4,154
Equity		
Issued share capital	5,036	5,036
Retained earnings	(125)	(719)
Foreign currency translation reserve	226	(163)
Total Equity	5,137	4,154
Total Equity and Liabilities	15,251	14,662

A copy of the full financial statements can be obtained from Fronde's registered office.

Summary Statement of Changes in Equity

For the year ended 31 March 2014

Group	Share Capital \$000	Retained Earnings \$000	Foreign Currency Translation Reserve \$000	Total \$000
At 1 April 2012	5,536	(3,456)	(165)	1,915
Profit on ordinary activities after taxation for year	-	2,737	-	2,737
Change in foreign currency translation reserve	-	-	2	2
Total comprehensive income for the year, net of tax	-	2,737	2	2,739
Own shares acquired	(500)			(500)
At 31 March 2013	5,036	(719)	(163)	4,154
At 1 April 2013	5,036	(719)	(163)	4,154
Profit on ordinary activities after taxation for year	-	857	-	857
Change in foreign currency translation reserve	-	-	389	389
Total comprehensive income for the year, net of tax	-	857	389	1,246
Own shares acquired				
Dividend paid	-	(263)	-	(263)
At 31 March 2014	5,036	(125)	226	5,137

A copy of the full financial statements can be obtained from Fronde's registered office.

Summary Statement of Cashflows

For the year ended 31 March 2014

	Group	
	2014 \$000	2013 \$000
Net cash (used in)/provided by operating activities	(322)	3,976
Net cash (used in)/provided by investing activities	(1,732)	(887)
Net cash (used in)/provided by in financing activities	(917)	382
Net increase in cash and cash equivalents	(2,971)	3,471
Cash and cash equivalents at the beginning of the financial year	4,235	762
Foreign exchange effects	389	2
Cash and cash equivalents at the end of the financial year	1,654	4,235

A copy of the full financial statements can be obtained from Fronde's registered office.

Notes to the Financial Statements

The Summary Financial Statements of Fronde Systems Group Limited ("Fronde"), a profit-oriented entity, for the year ended 31 March 2014 were extracted from the full Financial Statements authorised for issue by the Directors on 2 July 2014. An unmodified audit report was issued on 2 July 2014. The reporting currency is NZ dollars rounded to the nearest thousand (\$000).

As the Summary Financial Statements do not include all the disclosures that are in the full Financial Statements, they cannot be expected to provide as complete an understanding as produced by the full Financial Statements. These Summary Financial Statements are in compliance with FRS-43: *Summary Financial Statements* and the full financial statements comply with NZ-IFRS.



Fronde
www.fronde.com