rakon

2013 HY REVIEW

Synchronising
connectivity
everywhere

HY13 Statement of Results

For the first six months of the financial year Rakon posted a half year revenue of NZ$89 million, down $5 million on the previous year, but encouragingly up $6 million on the preceding six months.

EBITDA, on a look through basis including JVs and Associates for the first half, was NZ$4.7 million compared with $6.2 million in the same period in the prior year and $6.9 million in the last six months of the prior year. A bottom line net loss after tax of NZ$4.0 million was recorded, a result which did not meet the expectations of the Board or Management.

For a global business, the strength of the NZD:USD cross rate has continued to be a headwind. This issue has continued to negatively affect the performance of a number of export-led NZ organisations, like Rakon, which have a large majority of revenue and earnings sourced in USD. Further, the impact of the NZD being 10% higher against the EUR compared to the same period in the previous year, highlights the economic weakness in the Eurozone, where we had hoped to see an earlier return to investment by the telecommunications infrastructure market.

Rakon's Board and Management remain fully committed to the long term strategy – to continue to establish an industry leading platform for growth, which will deliver low cost manufacturing operations coupled with world class R&D, offering customers a diversified and leading product portfolio. The investment in manufacturing platforms and the restructuring of operations to meet anticipated growth has required the business to continue to carry additional costs over the reporting period. With revenue up $6m on the prior six months, the result reflects the company's re-invigorated strategy in the growing Asian market which will drive Rakon's growth and profitability in the future.

Realignment of global operations

During September and October we achieved a major NZ production milestone of shipping over 10 million units in each of those months. Behind this achievement however, the margins we earn from many of these products are too low to be able to sustain our business in its current form.

Recently we announced plans to realign our global business to optimise our scale manufacturing plants in India and China that comprise a vital element in the long term growth strategy. We are making changes across our global operations to ensure a new and higher level of profitability is maintained as a base, while continuing to build a globally competitive platform capable of meeting fast-growing demand within our target markets.

The realignment means a transition of the manufacturing of high volume crystals for the smart wireless device (SWD) market from NZ to our Chengdu plant in China. The NZ facility will concentrate more heavily on the company's growing R&D and profitable new product development, targeted at the telecommunications infrastructure market. NZ remains our headquarters and largest R&D facility as well as providing technical leadership for our global operations.

Besides realigning operations globally we are further expanding to improve the overall profitability of Rakon, which will clearly be a future benefit to Rakon shareholders. We are also extending our capacity in India to meet demand and realigning our activities in the UK, France and across our global sales team, driving improved earnings for the Group.

The impact of these plans is expected to deliver cost reductions and margin improvements of NZ$10 million per annum, with 70% of the planned changes expected to be in place as at April 2013.

Rakon Crystal Chengdu (RCC)

One year on from the opening of our manufacturing facility in Chengdu, our platform in China is now firmly established, with a strong local team well supported by the experience and expertise of our team in NZ. The Chengdu facility is running at current expectation and has more scalable opportunity to be realised in the future. It has confirmed our belief that now is the right time to expand crystal capacity there by acquiring new equipment and transferring some manufacturing from Auckland, while at the same time, deploying additional new equipment to establish TCXO assembly capability.

Our RCC operation will consolidate Rakon's position as a major global player in the frequency control solutions industry, providing Rakon with the scale and low cost operating structure for the smart wireless devices and telecommunications markets. Rakon's positioning in Chengdu, the epi-centre of global electronic manufacturing, also means we are closely linked to a number of brands that are gaining market share in China's domestic smart wireless device market and that offers enormous growth opportunities.

Rakon introduces MEMS technology

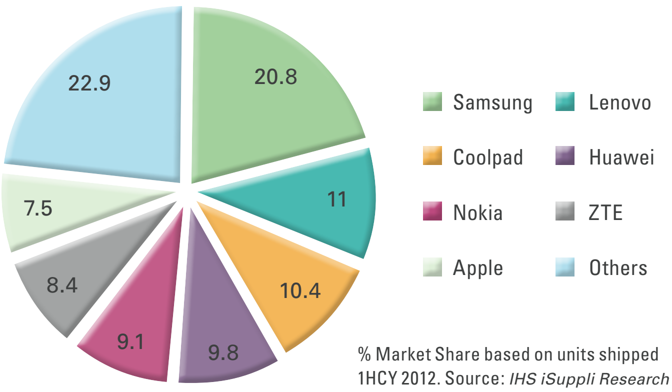
As part of Rakon's strategy to be a global frequency control solutions provider, Micro-Electro-Mechanical Systems, or MEMS technology, is being utilised to develop innovative new products to further broaden the oscillator product portfolio and capabilities.

The timing is now right to further diversify to include MEMS oscillators, complementing our existing portfolio and enabling us to meet customer requirements within new and existing markets. It consolidates Rakon's reputation as a technology leader, with the ability to offer both crystal and MEMS products, enabling Rakon to advise our customers on the best solutions that address the requirements of their specific applications.

Smart wireless devices market growth

During 2012, China surpassed the US as the largest market for smartphone sales, with Chinese brand names taking an increasing share of this market. Huge smartphone growth is expected in China, as device affordability for the growing middle-class is estimated to reach 80% of households by 2017.

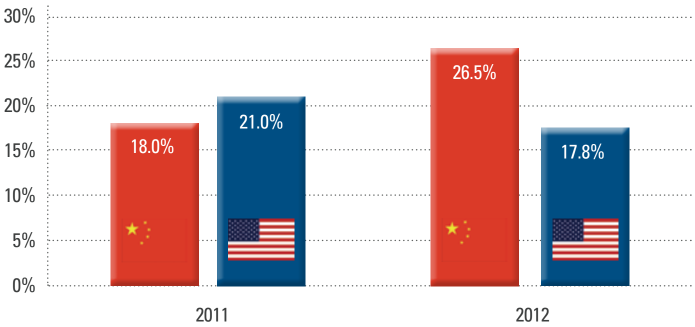
2012 China Smartphone % Units Shipped Market Share



% Market Share based on units shipped 1HCY 2012. Source: *IHS iSuppli Research*

Global Smartphone Shipments Market Share: The rise of China

Source: *IDC Worldwide Mobile Phone Tracker, August 2012*



Digitimes Research estimates that global smartphone shipments will grow 30% to 865 million units in 2013, accounting for 43.9% of total handset shipments. This global growth will be driven by increasing penetration in China, Russia, India, Indonesia, South America and other emerging markets which will offset weaker demand in Western Europe.

Rakon supplies 5 out the 7 major smartphone brands in China and more than 25 other local brands (see chart above). Rakon's RCC facility is ideally positioned to capture the volume growth in components for smart wireless devices as manufacturing capacity increases.

Telecommunications market

The telecommunications market was softer than expected in the 1H FY13, carrying over from FY12 due to global economic conditions and correction of supply chain disruptions from the Japan earthquake. Rakon remains firm that the global investment by telecom operators in LTE telecommunications network infrastructure (Long Term Evolution, marketed as 4G/LTE) will emerge. LTE is the fastest developing system in the history of mobile communications, with 50% of the world's population expected to be covered by 2017.

Huge capital investment in 4G/LTE by the world's major telecom carriers is needed to offer the latest generation of smart wireless devices and mobile services to their customers and to handle the huge surge of data growth that is impacting networks globally.

Major operators in US, Japan, Korea and China have made recent announcements about their capital investments in 4G/LTE and Rakon's customers - Ericsson, Alcatel, Huawei and Samsung - are the lead infrastructure providers.

Dense inner city 4G/LTE infrastructure rollouts will be driven by deploying heterogeneous networks which starts with macro cell investment then closely followed by small cell infrastructure deployments to increase the capacity of the network for improved user experience. Ericsson has projected that by 2017 each macro cell will be complemented by at least 3 metro small cells in urban environments. However, this will increase rapidly with the addition of about 40 micro and pico cells per square kilometre to add capacity to the macro sites.

Because 4G/LTE networks are processing exponential amounts of data at higher speeds, they require the performance of Rakon's Pluto™, Mercury™ and OCXO products. Consequently, Rakon is in a strong position to take significant market share through this infrastructure transition into 4G/LTE as these higher margin products have been successfully designed into the latest generation of infrastructure and small cells.

High reliability market

We are proud to announce that Rakon France has signed a strategic contract with the European Space Agency (ESA) to establish an approved European source for space grade oscillators. The ESA are developing an independent European supply chain, with it becoming mandatory to design and manufacture space grade crystal oscillators in Europe. Rakon will be that source, creating new business with the ESA and greatly strengthening Rakon's position in Europe.

New opportunities are also emerging in China and Korea due to Rakon strengthening its position in the Asian space industry.

Rakon's market position and product portfolio has been enhanced by Rakon France expanding its product offering with innovations that fulfil the most stringent product requirements needed for the high reliability market.

These gains are important for Rakon's future in the high reliability market to help diversify against the slowdown in the defence sector that has impacted the business unit results in France.

With revenue up $6m on the prior six months, the result reflects the company's re-invigorated strategy in the Asian market, which will drive the growth and profitability of the business in the future.

Closing comments

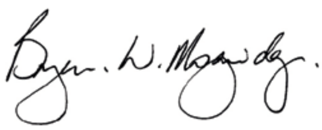
Plans now in place to realign our global operations will reduce group costs by NZ$10 million per annum, with 70% of the planned changes expected to be in place as at April 2013.

The release of costs from the mature parts of the business to lower cost manufacturing platforms will enable the NZ business to concentrate more heavily on growing its R&D activities and new product development.

Our manufacturing facilities in China and India are now well established and planned capacity expansion will deliver the scale needed to improve future earnings and invest for future growth.

We see continued demand and growth for our products in smart wireless devices market and expect improved contributions from telecommunications and high reliability markets as global economic conditions improve.

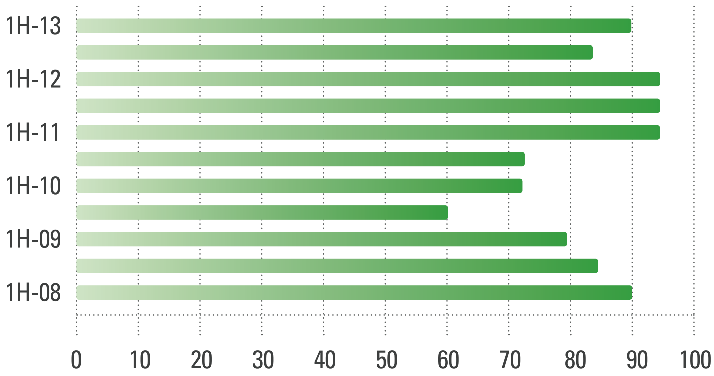
Reiterating the full year guidance given to the market in August, the current prospects and orders being received continue to indicate that Rakon should achieve a result within the predicted range.



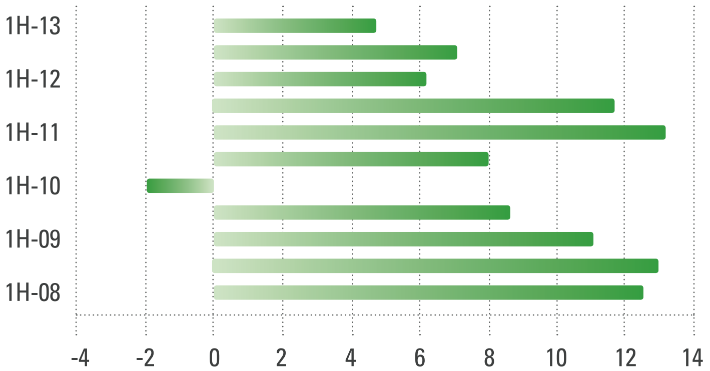
Bryan Mogridge
Chairman

Brent Robinson
Managing Director

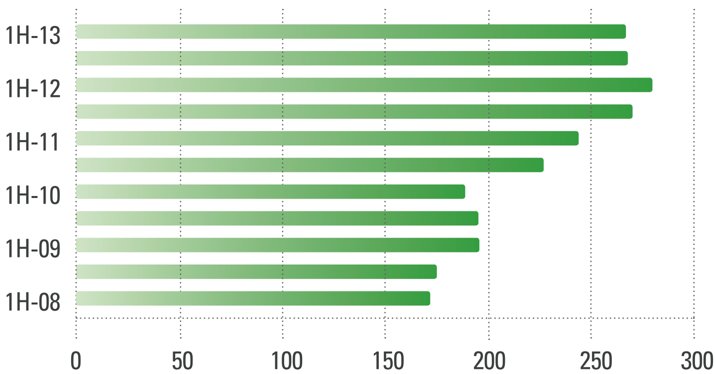
Revenue NZ$ million



EBITDA NZ$ million



Total Assets NZ$ million



Herb Hunt appointed to the Board

On the 1st of November, the Rakon Board appointed California-based Herb Hunt to the Board.

Herb's background includes over 40 years experience in senior global operational and strategic roles in the technology industry with leading companies including IBM, Siebel Systems and Symphony Group.

Herb's 30 year tenure with IBM included a three year stint as Chairman & CEO of IBM NZ before rising to lead operations in Asia Pacific and then Europe. His final role at IBM was to lead the transformation of IBM's Global Sales and Services activities. The Board welcomes Herb who brings well-honed and unique experience in operating and transforming technology businesses in complex environments.

FINANCIALS

Income Statement	Six month ended 30 September 2012 ($000s)	Six month ended 30 September 2011 ($000s)	Year ended 31 March 2012 ($000s)
Revenue	89,414	94,610	178,254
EBITDA	**4,695**	**6,187**	**13,086**
Depreciation and amortisation	(6,568)	(4,686)	(10,507)
Adjustment for Associate and joint venture share of interest, tax and depreciation	(1,475)	(1,402)	(2,099)
EBIT	**(3,348)**	**99**	**480**
Interest	(880)	(291)	(1,545)
Net profit before tax	**(4,228)**	**(192)**	**(1,065)**
Income tax credit/(expense)	**268**	**(67)**	**645**
Net profit after tax	**(3,960)**	**(259)**	**(420)**

Statement of Cash Flow	Six month ended 30 September 2012 ($000s)	Six month ended 30 September 2011 ($000s)	Year ended 31 March 2012 ($000s)
Net cash flow:			
- Operating activities	(2,188)	(1,404)	7,850
- Investing activities	(7,146)	(26,290)	(29,993)
- Financing activities	863	13,500	13,500
Net increase/(decrease) in cash and cash equivalents	**(8,471)**	**(14,194)**	**(8,643)**
Foreign currency translation adjustment	(15)	(2,444)	(914)
Cash and cash equivalents at the beginning of the period	12,434	21,991	21,991
Cash and cash equivalents at the end of the period	**3,948**	**5,353**	**12,434**

Balance Sheet	As at 30 September 2012 ($000s)	As at 30 September 2011 ($000s)	As at 31 March 2012 ($000s)
Current assets	109,837	121,900	108,709
Non-current assets	157,165	157,010	158,748
Total assets	**267,002**	**278,910**	**267,457**
Current liabilities	42,616	40,480	37,005
Non-current liabilities	35,394	36,712	36,185
Total liabilities	**78,010**	**77,192**	**73,190**
Net assets	**188,992**	**201,718**	**194,267**
Equity	184,701	196,436	189,298
Minority interest	4,291	5,282	4,969
Total equity	**188,992**	**201,718**	**194,267**

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