12 September 2014

RAKON LIMITED (NZX: RAK)
2014 ANNUAL SHAREHOLDERS MEETING – MANAGING DIRECTOR'S ADDRESS

Thank you Bryan.

Good afternoon shareholders.

Over 12 months ago we embarked on a period of significant change for Rakon. The undesirable, but necessary downside of that change was the FY14 financial result that Bryan referred to in his address earlier – a net loss after tax to Rakon shareholders of $79.4 million. The actions that we took in FY2014, that in turn had a bearing on the financial result, have been very necessary.

I'm pleased to be able to report today that the investment write-downs, impairments and restructure costs that were a feature of the FY2014 financial result, are now behind us.

Despite the very disappointing financial result, the Board and management team have achieved a significant amount in a short period. Together, through the last year, we have strategically re-positioned the company through structural, operational and market focused change.

Structural Change

The equity sale of Rakon Crystal Chengdu (as approved by our shareholders at last year's Special Shareholders Meeting), has not only allowed us to significantly reduce our debt to a comfortable level, it has resulted in us stemming losses and further eroding equity that we viewed as ongoing.

The necessary restructure of our French business unit and the completion in the transfer of the manufacturing of OCXO products to India, means that we now have a model to successfully commercialise our R&D and engineering strength, which we've retained in France following the restructure there.

The closure of our Lincoln, UK plant is in progress and will be completed by October, which is in line with our plans for this year. We have already transferred to New Zealand a number of the product groups that were being manufactured in the UK. Our restructure costs remain in line with our FY2014 provisions, as does our timing for completion. From the second half of this financial year, our financial results will realise the benefit of the Lincoln closure as we absorb their manufacturing and operations into our NZ operation with almost no additional resource requirement.

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Over the period of completion of this structural change we will have reduced our global consolidated headcount by over 45% - effectively we're doing more with less. When comparing to our FY2014 financial result, we are forecasting that our operating expenses in FY2015 will reduce by around $12 million.

As Bryan commented in his address - as a temporary measure we need to increase our debt this year to finish the program of structural change. In May we had announced that we had arranged our facilities to borrow up to $22 million. Since that time the forecast borrowings has being revised down $5m as a result of further improvements to working capital and cash management.

Market Focus

Since the time of the last ASM, we have strategically re-positioned our market focus, with the business now having a renewed focus on the telecommunications, space & defence and global positioning markets.

Rakon now supplies all tier one telecommunications equipment supplier with industry leading frequency control products. The demand for these products is increasing due to the deployment of 4G macro networks and within these networks, infill 4G small cells with their interconnecting systems. All of this is driven by the rapid expansion of wireless data. Rakon's product portfolio is very well positioned for these new generation of networks and is gaining market share.

With the acquisition of Temex back in 2011 Rakon retains a key position for frequency and timing for the European Space and Defence market. Rakon has been selected by the European Space Agency as the only supplier of a new generation space grade oscillator that will be used in multiple space programs of the future. We have also successfully developed and delivered key components for a next generation military radar system doubling their range and improving resolution.

With the general financial slowdown in Europe, the space and defence market segment has been quite flat with many programs been delayed or cut back. Despite this we remain confident that our investment in new technologies, products and markets will deliver us the returns we seek.

The positioning market has also been undergoing transition as the demand for personal navigation devices drops off with the use of in car navigation systems and smartphones. Although volumes for GPS oscillators is decreasing, we see the demand for higher specification oscillators in this segment increasing. Growing applications like automated farming equipment, diggers, dump trucks all require ruggedized high specification oscillators for their GPS systems. Rakon has patented technology giving us a clear advantage in this arena.

Technology Development

A core strength of Rakon is the intellectual knowledge that we hold in our R&D centres – located in NZ, France and the UK. Despite the recent tough financial results, we've continued to invest in R&D for the technology and products of tomorrow. This continued investment, particularly in Telecommunications, has allowed us to re-position ourselves quickly, with a number of years of development effort in readiness for the growth in this market that is now coming on. Our plan is to remain committed to R&D, producing new products with disruptive technologies being viewed as a valuable differentiator in our customer's eyes.

Closing Comments

The Board and I feel that the hard decisions and changes undertaken in the last year have been for the right reasons – to return Rakon to profitability quickly. As I said in the 2014 Review, "action has been taken to position the business toward Rakon's core foundations and strengths – higher margin, technologically advanced products".

The re-positioned focus on the markets in which we now operate, means that we will start from a lower revenue base than in previous years. Expanding our revenue through growth is achievable and our guidance for FY2015 (Underlying EBITDA of $10 million to $15 million) shows that we are on a path to the profitability that we all expect. FY15 will be a year of some remaining transition with the change that we have initiated over the last year. For this reason and the timing of the Lincoln plant closure (mid way though this FY), we are expecting our financial results to build momentum over the year, with a forecast for a stronger second half.

Thank you again for your patience as shareholders.

I'll now pass the running of the meeting back to Bryan.

- Managing Director's Address ends -

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About Rakon

Rakon Limited is a global high technology company that designs and manufactures world leading frequency control solutions. Embedded in telecommunications infrastructure, satellites in space, GPS products, smart phones and tablets, our products are at the forefront of enabling connectivity – faster and more reliably.

Disclosure of Non-GAAP Financial Information

Rakon has used 'Underlying EBITDA' as a measure of non-GAAP financial information in this announcement and it is defined as:
"earnings before interest, tax, depreciation, amortisation, impairment, loss on disposal of assets, employee share schemes, non-controlling interests, adjustments for associates and joint ventures share of interest, tax & depreciation, and other non-cash items."

'Underlying EBITDA' is a non-GAAP measure, with its presentation not being in accordance with GAAP. The Directors present 'Underlying EBITDA' as a useful non-GAAP measure to investors, in order to understand the underlying operating performance of the Group and each operating segment, before the adjustment of specific non-cash charges and before cash impacts relating to the capital structure and tax position. 'Underlying EBITDA' is considered by the Directors to be the closest measure of how each operating segment within the Group is performing. Management uses the non-GAAP measure of 'Underlying EBITDA' internally, to assess the underlying operating performance of the Group and each operating segment.
The use of 'Underlying EBITDA' in this guidance announcement is a forecast for FY2015 and is not from audited financial statements for the full year.

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