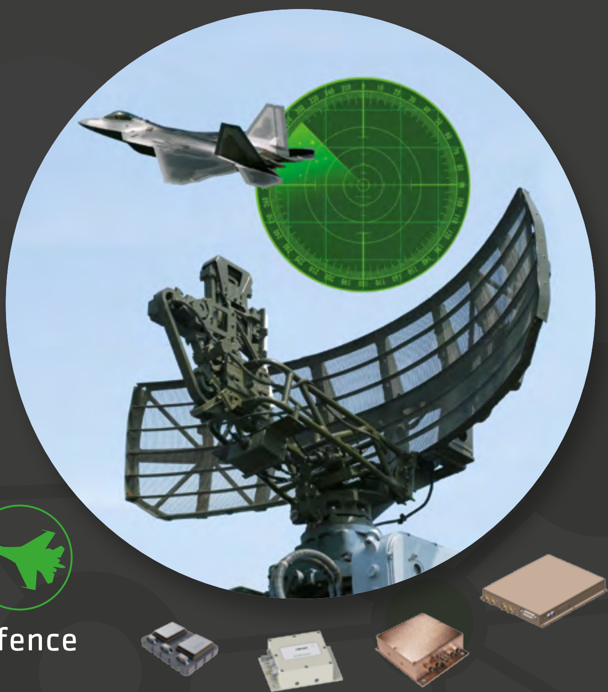
rakon

2015 HALF YEAR REVIEW

Telecommunications

Global Positioning

Space



Defence

Enabling Next Generation Technologies

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2015 Half Year Statement of Results

Underlying EBITDA* NZ$4.3m ▲>100% vs. HY2014

Operating Expense Reduction ▼22% vs. HY2014

Positive Impact of Structural Realignment Initiatives

Net Debt Reduction ▼70% vs. HY2014

Lincoln, UK Plant Closure in October 2014

Favourable Effect of 4G Growth in Telecommunications

Half Year (HY)2015 Performance Key Points

- NZ$42.3 million improvement in unaudited net loss after tax: HY2015 NZ$3.4 million vs. NZ$45.7 million in HY2014.
- NZ$9.0 million turnaround in Underlying EBITDA: profit of NZ$4.3 million in HY2015 vs. loss of NZ$4.7 million in HY2014.
- Favourable effect of growth in telecommunications.
- Lower net debt vs. HY2014 from improved working capital efficiencies and reduced capital spend.
- Reaffirmed Financial Year (FY)2015 earnings guidance of Underlying EBITDA of between NZ$10 million to NZ$15 million.

HY2015 Financial Overview

Rakon's interim financial result demonstrates the positive impact of the structural realignment initiatives undertaken in 2013–2014 and the result is in line with our expectations for the first half of FY2015. Our strategy of focusing on better product and operating margins is now taking effect.

Rakon reported an unaudited net loss after tax for the half year ending 30 September 2014 ('HY2015') of NZ$3.4 million, a significant improvement from the NZ$45.7 million net loss incurred in the half year ending 30 September 2013 ('HY2014'). Pleasingly, HY2015 Underlying EBITDA was a profit of NZ$4.3 million compared to a loss of NZ$4.7 million in HY2014.

Rakon reported revenues of NZ$61.4 million, while lower than HY2014, this was expected following our strategy to move away from the high volume, low margin smart wireless device market from the second half of FY2014. Operating expenses of NZ$24.2 million reduced by NZ$6.9 million from HY2014 and carried operating expenses for the Lincoln, United Kingdom (UK) plant. With the closure of that plant in October 2014 we expect to further benefit from reduced operating expenses in the second half.

Borrowings were NZ$12.0 million and net debt was NZ$8.2 million at the half year, both below our internal forecast for 30 September 2014 due to a combination of working capital and cash management improvements and reduced capital spend. Operating cash flows of minus NZ$30 thousand were positive NZ$3.6 million before adjusting for cash outflows relating to FY2014 restructuring.

Operational Overview

Having identified the closure of our Lincoln UK plant as a key strategic priority for FY2015, it is pleasing to have completed this within our targeted timeframe. The manufacturing capability has now transferred to New Zealand, resulting in increased efficiencies. Our focus in the second half is to ramp up the production in New Zealand to the levels of customer demand that we are experiencing. In November, we reached agreement for the sale of our just vacated Lincoln plant and we're expecting the sale to be completed by the calendar year end.

A further key strategic priority for FY2015 was to embed a new organisational structure following the structural realignment programme. That structure is now implemented and following the closure of the Lincoln plant, our headcount is at the reduced level that we targeted.

Congratulations to the European Space Agency (ESA). On 12 November 2014, ESA's Rosetta mission soft-landed its Philae probe on a comet – the first time in history that such an extraordinary feat has been achieved.

Rakon's crystal oscillators and crystal filters, are used in the CONSERT (COmet Nucleus Sounding Equipment by Radiowave Transmission), which is designed to probe the interior of the comet by using radio waves transmitted through the nucleus between the Philae lander and the Rosetta orbiter.

Image: European Space Agency

Market Update

Telecommunications Growth in telecommunications contributed positively to the profitability of all key business units, including an increase in earnings contribution from Rakon's joint venture, Centum Rakon India, where production volumes were at record levels in the second quarter.

New mobile phone 4G technology and data growth is driving new telecommunications infrastructure. Rakon is capturing strong growth from 4G deployments of new base station equipment, especially in India and the USA where key operators have started their rollout of 4G networks. We expect the investment in 4G macro and small cell base stations to continue for at least the next three years and then onwards into 5G technology infrastructure.

With a key strategic priority for FY2015 to be able to leverage Rakon's strong customer base and design-in activities, it has been pleasing to see that some of the revenue growth has resulted from investment made in previous years. Rakon's miniaturised 'Mercury' OCXO (Oven Controlled Crystal Oscillator) product family for small cells, as an example, has been in development for a number of years, with previous design-in activity now shifting to new revenues. We continue to invest in new products for the future across all of our core markets, with an array of new products currently in development or nearing release.

Global Positioning Revenues from the global positioning market for HY2015 were in line with HY2014. Although smart wireless devices are having an impact on traditional personal navigation devices, Rakon's GPS manufacturing customers are seeking greater technology by focusing on more industrial and specialised applications for products that can work under extreme environments. The requirements for this type of product are very well suited to Rakon's product portfolio. New and emerging markets such as wearable fitness devices that incorporate GPS technology, continue to grow. There is also growth in the traditional emergency beacon market where Rakon has a significant market share. While the global positioning market is currently flat overall, new emerging markets combined with Rakon's position as the leading frequency control supplier, means that we have a favourable outlook over the next two to three years.

Space and Defence Revenues for the space and defence market for HY2015 were lower than HY2014. This is in line with our expectations for FY2015 where a number of key projects have been planned to deliver in the second half, with revenues to increase as a result. Defence revenue has been trending up, offset by declining revenue in the softer space market. A strategic priority for us is to develop a global market position by expanding beyond well-established European markets. While significant business development effort is going into this strategy, the associated lead times mean that it will take two to three years to yield revenue growth in these new markets.

As reported in our 2014 Review, the European Space Agency's space craft Rosetta was on a mission to land its Philae lander on the comet 67P/Churyumov-Gerasimenko. In November it successfully achieved this world first, which was very exciting for us at Rakon, having supplied crystal oscillators and filters for this mission.

Outlook

Rakon is forecasting higher profitability over the second half of FY2015 compared to the first half, due to a number of factors including continued growth expected in the telecommunications market and a reduction in operating costs following the Lincoln plant closure. In addition, the company expects increased space and defence revenues resulting from the delivery of key projects timed during the second half of FY2015. Rakon also expects to see the benefits flowing through in the second half, from an improved NZD:USD exchange rate and a strong hedge position.

Following the structural realignment programme undertaken in 2013–2014, Rakon is now positioned to return to profit in the second half. We have already significantly reduced our operating expenses compared to FY2014 and these will further reduce in the second half. Our operational focus is on increasing throughput in manufacturing volumes in New Zealand, (following the transfer of production from the UK), as well as the increased product demand, to take advantage of the telecommunications growth that we are experiencing.

In our HY2015 announcements in November, Rakon reaffirmed its FY2015 earnings guidance of Underlying EBITDA of between NZ$10 million to NZ$15 million.

Bryan Mogridge
Chairman

Brent Robinson
Managing Director

***Disclosure of Non-GAAP Financial Information.** Rakon has used 'Underlying EBITDA' as a measure of non-GAAP financial information in this 2015 Half Year Review document 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 document for the half year of FY2015 has been extracted from unaudited financial statements. The use of 'Underlying EBITDA' in this document for FY2014 has been extracted from audited financial statements. This document should be read in conjunction with the Rakon Limited Interim Report September 2014. A detailed reconciliation of Underlying EBITDA to Net Loss is contained at Note 3 (Segment Information) of the Financial Statements.

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2015 Half Year Financial Summary

Summary of Revenue and Profit/(Loss)	Six months ended 30 September 2014 ($000s)	Six months ended 30 September 2013 ($000s)	Year ended 31 March 2014 ($000s)
Revenue	61,371	80,481	149,951
Underlying EBITDA*	**4,265**	**(4,709)**	**(7,531)**
Depreciation and amortisation	(4,755)	(5,092)	(16,446)
Impairment	-	(29,011)	(41,387)
Loss on loss on disposal of assets (sale of shares in subsidiary)	-	-	(8,467)
Non controlling interest and other non cash items	(320)	(3,647)	(4,390)
Adjustment for associate and joint venture share of interest, tax and depreciation	(1,748)	(1,552)	(2,787)
Interest	(531)	(1,224)	(1,715)
Income tax credit/(expense)	(279)	(447)	(1,076)
Net loss for the period	**(3,368)**	**(45,682)**	**(83,799)**

** Refer to page 3 for explanation of Underlying EBITDA.*

Summary Statement of Cash Flows	Six months ended 30 September 2014 ($000s)	Six months ended 30 September 2013 ($000s)	Year ended 31 March 2014 ($000s)
Net cash flow:			
– Operating activities	(30)	7,775	12,487
– Investing activities	(2,277)	181	16,730
– Financing activities	-	-	(25,890)
Net increase/(decrease) in cash and cash equivalents	**(2,307)**	**7,956**	**3,327**
Foreign currency translation adjustment	1,388	(1,207)	(1,817)
Cash and cash equivalents at the beginning of the period	4,800	3,290	3,290
Cash and cash equivalents at the end of the period	**3,881**	**10,039**	**4,800**

Balance Sheets	As at 30 September 2014 ($000s)	As at 30 September 2013 ($000s)	As at 31 March 2014 ($000s)
Current assets	69,512	84,201	72,967
Non-current assets	57,317	76,328	55,418
Assets held for sale	-	36,165	-
Total assets	**126,829**	**196,694**	**128,385**
Liabilities			
Current liabilities	45,240	69,663	34,298
Non-current liabilities	4,354	2,731	15,120
Liabilities held for sale	-	8,152	-
Total liabilities	**49,594**	**80,546**	**49,418**
Net assets	**77,235**	**116,148**	**78,967**
Equity	77,235	115,661	78,967
Minority interest	-	487	-
Total equity	**77,235**	**116,148**	**78,967**