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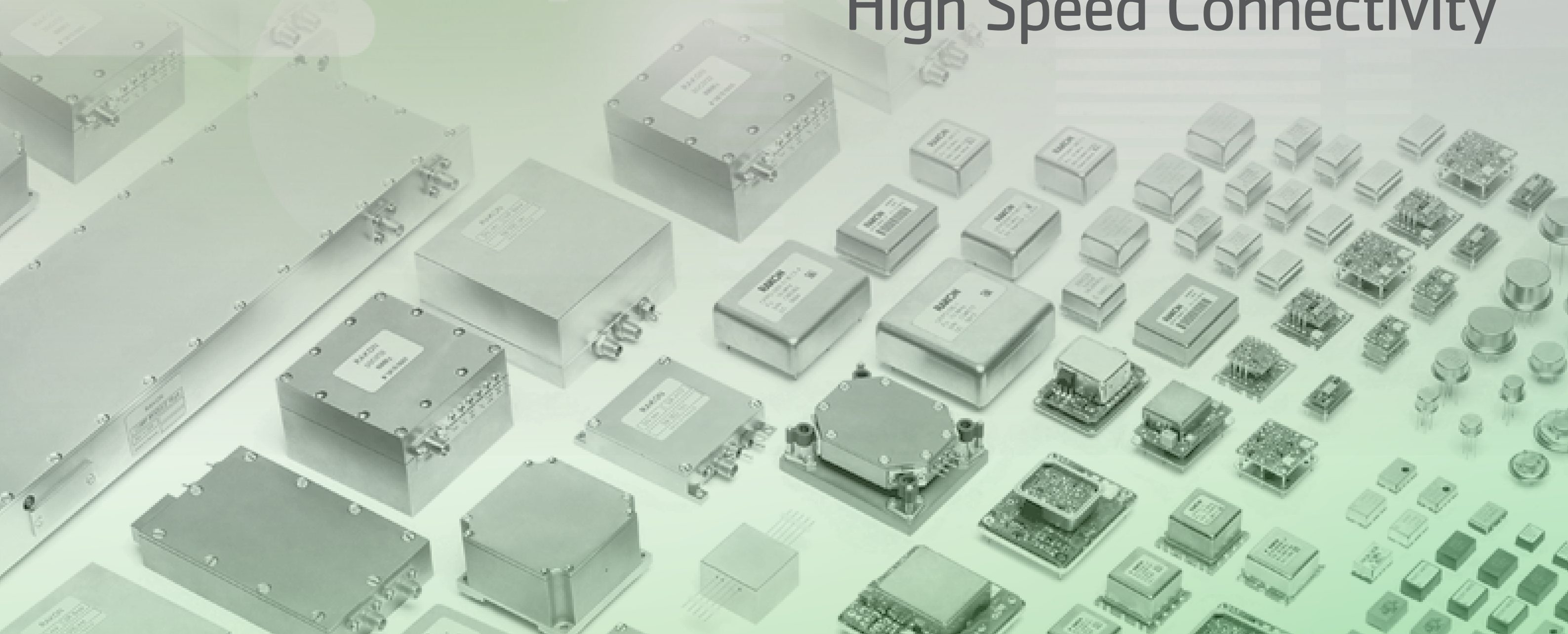
2016 HALF YEAR REVIEW

Advanced Timing for High Speed Connectivity



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2016 Half Year Statement of Results

Gross Margin %
▲ 50% vs. HY2015

Half Year (HY)2016 **Performance Key Points**

Return to Net Level Profitability for Half Year

Net Debt Reduction
▼ 28% vs. FY2015

Underlying EBITDA[1] NZ$6.2m
▲ 46% vs. HY2015

Operating Expense Reduction
▼ 4% vs. HY2015

Operating Cash Flow
▲ 100% vs. HY2015

- NZ$4.5 million improvement in unaudited NPAT: HY2016 NZ$1.1 million net profit vs. HY2015 NZ$3.4 million net loss.
- NZ$1.9 million growth in first half Underlying EBITDA[1] earnings: NZ$6.2 million in HY2016 vs. NZ$4.3 million in HY2015.
- 6% decline in NZD reported revenue for HY2016 vs. HY2015, stalling further profit growth.
- Strong improvement shown in positive operating cash flow: HY2016 NZ$5.3 million vs. HY2015 $(0.0) million.

HY2016 Financial Overview

Rakon reported an improvement in half year profit, despite encountering tough market conditions in our key telecommunications market during the first half. A prolonged slowdown in telecommunications spend over the first half, resulted in profits growing slower than we were expecting.

The company reported an unaudited Net Profit After Tax (NPAT) for the half year ending 30 September 2015 ('HY2016') of NZ$1.1 million, an improvement from the NZ$3.4 million net loss incurred in the half year ending 30 September 2014 ('HY2015'). Rakon also reported an improvement in HY2016 Underlying EBITDA[1] to NZ$6.2 million, an increase of NZ$1.9 million vs. HY2015.

Revenue of NZ$58.0 million was reported for HY2016, down 6% vs. HY2015. A slowdown in the telecommunications market resulted from network operators delaying their investment decisions in next generation infrastructure. The adverse impact has come mainly in the macro base station market, where Underlying EBITDA[1] for Rakon's Indian joint venture, Centum Rakon India (CRI), was down NZ$2.6 million vs. HY2015.

While the HY2016 result is lower than we were expecting, it is pleasing that the structural realignment and consolidation initiatives reported the same time last year, successfully returned the company to profit as planned. Rakon remains fully focused on reaching its target of profitability growth beyond FY2016.

Rakon has continued the trajectory of improving its margins, improving from 28% in HY2015 to 41% in HY2016. The improvement in margins has resulted from changes in product mix, technology transition and currency benefit. It's pleasing that our strategy of focusing on better operating and product margins has come to fruition, as reflected in our interim result.

Positive operating cash flows of NZ$5.3 million were reported for the period. This has helped to reduce net debt to NZ$9.7 million, down from NZ$13.4 million at the end of FY2015. As the company has increased earnings from entities under full ownership, this has had a positive impact on operating cash flow for the period.

Operational Overview

A key focus across our operations in HY2016 has been improving operating efficiency and quality through our culture of continuous improvement and adoption of lean manufacturing principles. Projects have included reducing costs, improving yields and reducing customer lead and delivery times. In September our Pont Sainte Marie site in France became qualified to supply crystals to the European Space Agency. In addition, our New Zealand facility was recertified for ISO 9001 in September and ISO/TS 16949 in October.

Operating expenses reduced by NZ$0.9 million vs. HY2015 to NZ$23.3 million, reflecting lower operating costs as a result of the closure of the Lincoln, UK manufacturing plant in 2015.

Market Update

Telecommunications The telecommunications market has overall been tougher than we had anticipated, with major network operators' equipment spending declining. Rakon's revenue in this market has been down 8% vs. HY2015. We continue to work with a loyal customer base which includes some of the largest companies in the world, however there's a lot of focus in the industry at the moment on buying up frequency spectrum for 4G and 5G bandwidth for future utilisation. Some key mobile operators have also been focused on acquisition activity in 2015. Both these distractions have resulted in a slowdown in the macro base station market where we supply our discrete oscillator range, which is designed in France and manufactured in India.

While 4G deployments have gained coverage, we are seeing that services are becoming congested and operators are trialling different technologies to increase capacity. Rakon is well positioned for these different technologies, whether it be macro cells and remote radio heads, or a shift into small cells – where Rakon has already deployed leading technology products.

Despite the slowdown in the macro base station market, other areas of the telecommunications market such as small cells, have continued to grow over the prior period. This growth, combined with the consolidation efficiencies from the transfer of manufacturing operations from the United Kingdom into New Zealand, has resulted in a significant growth in profits for the New Zealand business unit.

Global Positioning Revenues from the global positioning market for HY2016 were up 13% vs. HY2015. With our strategic focus for higher margin products, we're seeing further opportunities ahead from specialised uses across aviation, marine, agriculture and mining. Rakon's patented technology application enables GPS to work in harsh and rugged environments, allowing precision positioning. Satellite networks such as BeiDou (China's navigation satellite system) are now delivering business as a result of our product offering that can meet high precision accuracy requirements (down to the centimetre).

While our revenue growth is modest, there has been a stronger improvement in margins in this market with the shift to applications and devices from personal navigation to industrial.

Space and Defence Revenues for the space and defence market for HY2015 were lower than HY2014, mainly as our European business continues to experience tough market conditions. Three new product platforms are either finished or in late progress, with expectations for improved opportunities from FY2017. Positively in the defence market, we've seen growth in revenue coming from some key US based customers. We're also seeing new space networks emerging with micro satellites, which is creating new opportunities for our products to be designed into.

Rakon is forecasting second half revenue to increase for the space and defence market. This is in line with our expectations for FY2016 where a number of key projects have been planned to deliver in the second half, following a similar trend in previous years.

Outlook

The telecommunications market is expected to remain tough into the next calendar year. We see the underlying outlook and network challenges still remaining however. There is a continuous increase in connectivity and data usage and congestion is becoming prevalent and starting to impact on service levels. We believe internet traffic is the underlying driver for Rakon's future growth; demand is outstripping supply and device speed is limited by the number of connections available. For this reason we expect network operators to be forced to meet customer demand requirements from FY2017– FY2018, where Rakon's products are well positioned to meet this market need.

We're also keeping a close eye on potential new markets and the development of the wider industries in which we touch. The Internet of Things (IoT) market is continuing to emerge, where an ecosystem is currently forming with new opportunities in networks, infrastructure, and the development of modules to enable devices and services. We continue to stay close to how we can best leverage the opportunities from the fast forming IoT and the growth in data demand driven by Machine to Machine (M2M) connectivity.

Bryan Mogridge
Chairman

Brent Robinson
Managing Director

[1]**Disclosure of Non-GAAP Financial Information.** Rakon has used 'Underlying EBITDA' as a measure of non-GAAP financial information in this 2016 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 FY2016 has been extracted from unaudited financial statements. The use of Underlying EBITDA in this document for FY2015 has been extracted from audited financial statements. This document should be read in conjunction with the Rakon Limited Interim Report September 2015. A detailed reconciliation of Underlying EBITDA to Net Profit After Tax is contained at Note 3 (Segment Information) of the Financial Statements.

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2016 Half Year Financial Summary

Summary of Revenue and Profit/(Loss)	Six months ended 30 September 2015 ($000s)	Six months ended 30 September 2014 ($000s)	Year ended 31 March 2015 ($000s)
Revenue	57,990	61,371	131,417
Underlying EBITDA[1]	**6,210**	**4,265**	**15,369**
Depreciation and amortisation	(3,113)	(4,755)	(7,938)
Employee share schemes	(40)	(6)	(58)
Interest	(605)	(531)	(1,272)
Adjustment for associate and joint venture share of interest, tax and depreciation	(1,079)	(1,748)	(3,600)
Loss on asset sales/disposal	–	–	(596)
Other non-cash items	(136)	(314)	(361)
Income tax (expense)/credit	(157)	(279)	1,646
Net profit/(loss) for the period	**1,080**	**(3,368)**	**3,190**

[1]Refer to page 2 for explanation of Underlying EBITDA.

Summary Statement of Cash Flows	Six months ended 30 September 2015 ($000s)	Six months ended 30 September 2014 ($000s)	Year ended 31 March 2015 ($000s)
Net cash flow:			
– Operating activities	5,329	(30)	(3,573)
– Investing activities	(3,077)	(2,277)	(3,601)
– Financing activities	–	–	711
Net increase/(decrease) in cash and cash equivalents	**2,252**	**(2,307)**	**(6,463)**
Foreign currency translation adjustment	1,314	1,388	433
Cash and cash equivalents at the beginning of the period	(1,230)	4,800	4,800
Cash and cash equivalents at the end of the period	**2,336**	**3,881**	**(1,230)**

Balance Sheets	As at 30 September 2015 ($000s)	As at 30 September 2014 ($000s)	As at 31 March 2015 ($000s)
Current assets	71,200	69,512	68,364
Non-current assets	63,061	57,317	56,490
Total assets	**134,261**	**126,829**	**124,854**
Current liabilities	42,574	45,240	30,183
Non-current liabilities	4,906	4,354	15,262
Total liabilities	**47,480**	**49,594**	**45,445**
Net assets	**86,781**	**77,235**	**79,409**
Equity	86,781	77,235	79,409
Total equity	**86,781**	**77,235**	**79,409**