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FY2018 Financial Key Points
FY2018 Key Points

Strong earnings result in FY2018
- Net profit after tax of NZ$10.0 million vs. net loss of NZ$13.6 million in FY2017
- Underlying EBITDA\(^1\) of NZ$12.1 million vs. NZ$4.0 million in FY2017 (NZX guidance to be between NZ$10.7 million and NZ$12.7 million)

Revenue turned to growth
- Revenue up 7% on a NZD reported basis, with growth coming from:
  - Space & Defence revenue up 29%.
  - Global Positioning revenue up 9%.

Significant increase in gross profit
- Revenue growth and a mix of business from higher margin markets and products contributed to a gross profit amount increase of 29%
- Underlying EBITDA\(^1\) increased 174% to NZ$10.0 million and 200% to NZ$12.1 million

Note: The release of FY2018 results is based on audited financial statements
\(^1\)Refer to Note B of the 2018 Financial Statements for an explanation of how ‘Non-GAAP Financial Information’ is used, including a definition of Underlying EBITDA and reconciliation to NPAT
FY2018 Key Points

Several contributing factors to the strong FY2018 profit result

- A return to profitable trading in core business
- A number of value accretive gains that include:
  - A gain from the sale of the France property of NZ$2.1 million
  - A gain from the partial sale of Thinxtra shares of NZ$1.9 million
  - A reported net dilution gain in Thinxtra of NZ$4.8 million, relating to Rakon’s equity accounted share of an increase in the company’s net assets, following capital introduced at a premium

A strong positive movement in the cash position

- Closing net cash of NZ$7.4 million vs. net debt of NZ$4.5 million in FY2017
- Strong operating cash flow of NZ$7.9 million
- Proceeds from the sale of assets and investments of NZ$7.9 million
- Finance costs down NZ$0.9 million from reduced debt
## FY2018 Key Points

<table>
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<th>NZD Millions</th>
<th>FY2018</th>
<th>FY2017</th>
<th>% change</th>
</tr>
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<tr>
<td>Volumes (millions)</td>
<td>45.3</td>
<td>44.5</td>
<td>+2%</td>
</tr>
<tr>
<td>Revenue</td>
<td>101.1</td>
<td>94.7</td>
<td>+7%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>43.3</td>
<td>33.7</td>
<td>+29%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>41.6</td>
<td>41.9</td>
<td>+1%</td>
</tr>
<tr>
<td>Underlying EBITDA&lt;sup&gt;1&lt;/sup&gt;</td>
<td>12.1</td>
<td>4.0</td>
<td>+200%</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>4.3</td>
<td>5.6</td>
<td>+23%</td>
</tr>
<tr>
<td>Net profit/(loss) after tax</td>
<td>10.0</td>
<td>(13.6)</td>
<td>+174%</td>
</tr>
<tr>
<td>Earnings (cents per share)</td>
<td>4.4</td>
<td>(6.9)</td>
<td>+164%</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>7.9</td>
<td>9.5</td>
<td>-17%</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>4.2</td>
<td>3.8</td>
<td>-9%</td>
</tr>
<tr>
<td>Bank borrowings</td>
<td>-</td>
<td>4.5</td>
<td>+100%</td>
</tr>
<tr>
<td>Net cash position</td>
<td>7.4</td>
<td>(4.5)</td>
<td>+266%</td>
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- Volumes increased, with revenue increasing at a higher rate due to the mix of business
- Operating costs in line in NZD, but lower on a local currency basis with an appreciating EUR and GBP
- Depreciation & amortisation decline continues due to past years lower capex trend
- Business need for capital expenditure remained low
- Borrowings were permanently reduced from positive operating and investing cash flows, with a movement over the year from net debt to net cash
FY2018 Key Achievements
FY2018 Key Achievements

Siward technology transfer
- Commitments regarding the technology transfer license mostly now complete
- Siward now in production and partnering with Rakon on key component supply, mitigating previous risk
- Partnership well established and ready to be leveraged for the benefit of both parties

Centum Rakon India
- Buyout of JV partner Centum Electronics completed on 2 May 2018 for US$5.5 million; Rakon now has 100% ownership
- Strategic decision in line with the company’s manufacturing strategy to have a low-cost operating platform
  - A platform suitable for future growth
- Key support agreement reached with Centum Electronics to provide services for up to 18 months while Rakon implements its ownership integration plan
  - All control and decision-making now with Rakon
**FY2018 Key Achievements**

- **France property sale**
  - Completed in March 2018, the result of a number of years of work to have the property rezoned for sale
  - Achieved NZ$4.5 million in sale proceeds, with a reported gain-on-sale of NZ$2.1 million

- **Research & Development**
  - Technology requirements and solution designs for next generation 5G telecommunication networks and applications becoming clearer
  - Rakon well positioned with product and technology offering based on prior year’s R&D roadmap
    - Mercury/Mercury+ ASIC based OCXOs attractive to customers
  - Strong R&D focus in FY2018 in readiness for telecommunication market opportunities ahead

- **Governance**
  - Board focus on new NZX Governance Code released in 2017
Market Update
Telecommunications revenue remained flat on a US$ basis in FY2018 vs FY2017 despite the first half growth

The small cell market in Taiwan was down in the second half
- 4G small cell demand has not replaced the 3G small cells as anticipated

Opportunity with products from Centum Rakon India has not been capitalised on

Tier One equipment manufacturers have been focused on 5G and Rakon has been very actively involved supporting this development activity
- Waiting for these customers to shift to an implementation phase
Market Update – Global Positioning

- FY2018 Global Positioning Tier One customer volume and revenue both grew
  - Precise positioning demand for industrial & autonomous applications grew 25% in FY2018
  - In China, with the localised positioning satellite network, Rakon’s revenue increased 30%
  - The emergency locator beacon market grew 25% in FY2018
    - Personal locator beacon a growth market
    - Rakon dominant global supplier
- Positioning embedded into wide area, low power IoT applications is a big opportunity for TCXOs, if the price can be competitive
Revenue from Rakon’s Space market grew 20% in FY2018
   - 50% of the Space growth came from China.
Defence revenue grew 25% in FY2018, mainly from the US region
Centum Rakon India’s local Space & Defence business in India grew beyond US$1 million in FY2018
The micro satellite Low Earth Orbit (LEO) networks present opportunities for high volume and new value-add product development
Q&A
Closing Comments and Outlook
Closing Comments and Outlook

FY2018

- A strong profit result has been delivered from a return in the core business along with a number of other gains
- Revenue bottomed out in FY2017 and started a growth recovery in FY2018
- The acquisition of Centum Rakon India is strategic and significantly important to growing future profit
- Balance sheet stability has been achieved with the movement into a net cash position

FY2019 Outlook

- We expect core business to grow
- The successful execution of the integration of Centum Rakon India (CRI) into Rakon is a key priority in FY2019
  - Focus on profit turnaround of CRI
- A number of key R&D product developments to shift into mass production during FY2019
- The Board will continue to assess ‘fair value accounting’ of the investment in Thinxtra, with a potential upside to FY2019 reported profit
- The Directors will continue to monitor the cash requirements of the business in consideration of a dividend