

## Results for announcement to the market

Date: 19 May 2016

Rakon Limited (RAK)

**rakon**



Reporting period	12 months to 31 <sup>st</sup> March 2016
Previous reporting period	12 months to 31 <sup>st</sup> March 2015

<b>Audited</b>	<b>Amount NZ\$000</b>	<b>% Change</b>
Revenue from ordinary activities	112,737	-14%
Underlying EBITDA <sup>c</sup> (Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures share of interest, tax & depreciation and other non-cash items)	9,008 <sup>a</sup>	-41%
Loss from ordinary activities after tax attributable to security holders	(1,731) <sup>b</sup>	-154%
Net profit attributable to security holders	(1,731) <sup>b</sup>	-154%

Note a: includes share of Underlying EBITDA from associates and joint ventures of \$1,148,000 (March 2015: \$6,687,000).

b: includes equity accounted earnings from associates and joint ventures of \$902,000 (March 2015: \$3,153,000).

c: further information regarding the disclosure and use of non-GAAP financial information is disclosed at note B1 (Notes to the audited Consolidated Financial Statements) in this results announcement.

	<b>Amount per security</b>	<b>Imputed amount per security</b>
Interim / Final Dividend	Nil dividend proposed	Nil dividend proposed
Record Date	Not Applicable	Not Applicable
Dividend Payment Date	Not Applicable	Not Applicable

## COMMENTS

19 May 2016

### Telcos' infrastructure investment delays reduce earnings for Rakon

- Net loss after tax of NZ\$1.7m vs Net profit after tax of NZ\$3.2m in FY2015
- Revenue NZ\$112.7 million (FY2015 NZ\$131.4 million)
- 25% decrease in revenue from Telecommunications major contributor to decrease in total sales volumes and revenue
- Growth in margin dollars (and % of revenue) from consolidated subsidiaries: FY2016 NZ\$47.9 million (43%) vs NZ\$41.8 million (32%) in FY2015
- Increase in operating cash flow: FY2016 NZ\$7.3 million vs NZ\$3.6 million operating cash flow loss in FY2015
- New investment in Thinextra opens up opportunities in Internet of Things (IoT)

NZD Millions, Audited	FY2016	FY2015	% Change
Revenue	112.7	131.4	(14.2)
Underlying EBITDA <sup>1</sup>	9.0	15.4	(41.4)
Net profit/(loss) after tax	(1.7)	3.2	(>100.0)
Gross Profit	47.9	41.8	14.6
Operating expenses	47.8	46.2	(3.3)
Operating cash flow	7.3	(3.6)	>100.0
Net debt	12.6	13.4	6.0

<sup>1</sup> A detailed reconciliation of Underlying EBITDA to net profit/(loss) after tax, is included at Note B1 of the Audited Financial Statements.

Reduced capital expenditure by telecommunications companies around the world has seen global high technology company Rakon Limited post a net loss after tax of NZ\$1.7 million on revenue of NZ\$112.7 million for the year ended 31 March 2016.

The company's Underlying EBITDA of NZ\$9.0 million was in line with forecasts issued earlier this year.

Rakon Managing Director Brent Robinson said major network operators around the world had continued to delay infrastructure investment. This had affected sales in Rakon's telecommunications market segment, which remains the company's main source of revenue.

"As we flagged earlier this year, major network operators continue to favour investment in 5G bandwidth and M&A activities over spending on base stations and other infrastructure," he said.

Mr Robinson said the move to 5G would in itself create a need for increased infrastructure investment to cope with growing demand for an ever-expanding range of applications and faster network speeds.

Rakon has strong relationships with both network equipment and original design manufacturers, meaning it was well-placed to benefit from an upturn in infrastructure investment, but remained cautious about forecasting exactly when demand would rebound.

Mr Robinson said the increasing usage of GPS technology in a whole range of industries was generating significant opportunities for Rakon. Changing technologies, including the decline of the Personal Navigation Device in favour of other solutions, was helping to drive increased margins in Rakon's Global Positioning business, while the company's automotive customers were looking beyond GPS to address advanced connectivity applications for Smart Cars.

Rakon's Space and Defence segment was also expecting increased sales in the coming year, with the introduction of new products following the completion of several key long-term development projects during FY2016.

Rakon's move to diversify into the Internet of Things (IoT) business via a cornerstone shareholding in Thinxtra, which will develop and operate the SIGFOX global network in Australia and New Zealand, made the company part of a worldwide network of potential customers for its innovative component technology, said Mr Robinson.

"The SIGFOX network is the only global network designed with the IoT in mind. It has the lowest deployment-and-maintenance costs of any system proposed, making it viable for a huge number of applications that will revolutionise the way we work and live, and Rakon is excited to be involved in bringing it to this part of the world," he said.

"It will also generate massive amounts of data, which will in turn require new infrastructure. Rakon's track record as an innovator in semiconductors equips it to be a supplier of choice to customers around the world."

Overall, Rakon was maintaining a strong focus on continuous improvement in operational excellence and efficiency. In the past year, it has been standardising its global quality systems to ensure best in class quality and customer service.

The Directors confirm that this FY2016 preliminary results announcement is based on audited results.

Brent Robinson

Chief Executive Officer & Managing Director

-ends-

Media Enquiries:

Louise Howe (Media Liaison)

021 206 0985

[www.rakon.com](http://www.rakon.com)

### **About Rakon**

Rakon is a global high technology company and a world leader in its field. The company designs and manufactures advanced frequency control and timing solutions for telecommunications, global positioning and space and defence applications. Rakon products are found at the forefront of communications where speed and reliability are paramount. The company's products create extremely accurate electric signals which are used to generate radio waves and synchronise time in the most demanding communication applications. Rakon has five manufacturing plants including two joint venture plants and has five research and development centres. Customer support centres are located in ten offices worldwide.

Rakon is proud of its New Zealand heritage; it was founded in Auckland in 1967. It is a public company listed on the New Zealand stock exchange, NZSX, ticker code RAK.

# Statement of Comprehensive Income

For the year ended 31 March 2016

	Note	2016 \$000s	2015 \$000s
<b>Continuing operations</b>			
Revenue	B2 a)	112,737	131,417
Cost of sales		(64,797)	(89,599)
<b>Gross profit</b>		<b>47,940</b>	<b>41,818</b>
Other operating income	B2 b)	125	250
Operating expenses	B2 c)	(47,766)	(46,246)
Other gains - net	B2 d)	871	3,841
<b>Operating profit/(loss)</b>		<b>1,170</b>	<b>(337)</b>
Finance income	B2 f)	3	4
Finance costs	B2 f)	(1,128)	(1,276)
Share of (loss)/profit of associates and joint venture		(902)	3,153
<b>(Loss)/profit before income tax</b>		<b>(857)</b>	<b>1,544</b>
Income tax (expense)/credit	B2 g)	(874)	1,646
<b>Net (loss)/profit for the year</b>		<b>(1,731)</b>	<b>3,190</b>
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss			
Increase/(decrease) in fair value cash flow hedges		932	(1,641)
Decrease in fair value net investment hedge		-	(53)
Increase/(decrease) in fair value currency translation differences		4,998	(1,586)
Income tax relating to components of other comprehensive income		(261)	474
<b>Other comprehensive income/(losses) for the year, net of tax</b>		<b>5,669</b>	<b>(2,806)</b>
<b>Total comprehensive income for the year</b>		<b>3,938</b>	<b>384</b>
<b>(Loss)/profit attributable to equity holders of the Company</b>		<b>(1,731)</b>	<b>3,190</b>
<b>Total comprehensive profit attributable to equity holders of the Company</b>		<b>3,938</b>	<b>384</b>
<b>Earnings per share for (loss)/profit attributable to the equity holders of the Company from continuing operations</b>			
		<b>Cents</b>	<b>Cents</b>
Basic (losses)/earnings per share		(0.9)	1.7
Diluted (losses)/earnings per share		(0.9)	1.6

The accompanying notes form an integral part of these financial statements.

## Statement of Changes in Equity

### For the year ended 31 March 2016

	Share capital	Retained earnings	Other reserves	Total equity
	\$000s	\$000s	\$000s	\$000s
<b>Balance at 31 March 2014</b>	<b>173,881</b>	<b>(71,119)</b>	<b>(23,795)</b>	<b>78,967</b>
Net profit after tax for the year ended 31 March 2015	-	3,190	-	3,190
Currency translation differences	-	-	(1,586)	(1,586)
Cash flow hedges, net of tax	-	-	(1,182)	(1,182)
Net investment hedge, net of tax	-	-	(38)	(38)
<b>Total comprehensive income/(losses) for the year</b>	<b>-</b>	<b>3,190</b>	<b>(2,806)</b>	<b>384</b>
Employee share schemes				
Value of employee services	-	-	58	58
<b>Balance at 31 March 2015</b>	<b>173,881</b>	<b>(67,929)</b>	<b>(26,543)</b>	<b>79,409</b>
Net loss after tax for the year ended 31 March 2016	-	(1,731)	-	(1,731)
Currency translation differences	-	-	4,998	4,998
Cash flow hedges, net of tax	-	-	671	671
<b>Total comprehensive income/(losses) for the year</b>	<b>-</b>	<b>(1,731)</b>	<b>5,669</b>	<b>3,938</b>
Employee share schemes				
Value of employee services	-	-	81	81
<b>Balance at 31 March 2016</b>	<b>173,881</b>	<b>(69,660)</b>	<b>(20,793)</b>	<b>83,428</b>

The accompanying notes form an integral part of these financial statements.

## Balance Sheet

As at 31 March 2016

	2016 \$000s	2015 \$000s
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,370	4,858
Trade and other receivables	28,812	34,430
Derivatives – held for trading	227	52
Derivatives – cash flow hedges	459	281
Inventories	29,830	28,716
Current income tax asset	212	27
<b>Total current assets</b>	<b>62,910</b>	<b>68,364</b>
<b>Non-current assets</b>		
Derivatives – cash flow hedges	1,466	634
Trade and other receivables	1,165	1,260
Property, plant and equipment	17,234	16,912
Intangible assets	14,850	14,547
Investment in associate	10,315	8,697
Interest in joint venture	6,798	7,015
Deferred tax asset	6,538	7,425
<b>Total non-current assets</b>	<b>58,366</b>	<b>56,490</b>
<b>Total assets</b>	<b>121,276</b>	<b>124,854</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank overdraft	3,931	6,088
Borrowings	15	139
Trade and other payables	17,526	21,759
Derivatives – held for trading	3	103
Derivatives – cash flow hedges	813	911
Derivatives – interest rate swaps	330	112
Provisions	414	1,071
<b>Total current liabilities</b>	<b>23,032</b>	<b>30,183</b>
<b>Non-current liabilities</b>		
Derivatives – cash flow hedges	421	752
Borrowings	12,000	12,013
Provisions	2,361	2,098
Deferred tax liabilities	34	399
<b>Total non-current liabilities</b>	<b>14,816</b>	<b>15,262</b>
<b>Total liabilities</b>	<b>37,848</b>	<b>45,445</b>
<b>Net assets</b>	<b>83,428</b>	<b>79,409</b>
<b>Equity</b>		
Share capital	173,881	173,881
Other reserves	(20,793)	(26,543)
Accumulated losses	(69,660)	(67,929)
<b>Total equity</b>	<b>83,428</b>	<b>79,409</b>

The accompanying notes form an integral part of these financial statements.

## Statement of Cash Flows

For the year ended 31 March 2016

	2016 \$000s	2015 \$000s
<b>Operating activities</b>		
<b>Cash provided from</b>		
Receipts from customers	119,026	134,364
Interest received	-	7
Income tax refund	205	-
Dividend received from joint venture	1,253	1,048
R&D grants received	3,064	1,981
Other income received	147	221
<b>Cash provided from operating activities</b>	<b>123,695</b>	<b>137,621</b>
<b>Cash was applied to</b>		
Payment to suppliers and others	(70,217)	(91,062)
Payment to employees	(44,478)	(48,216)
Interest paid	(1,081)	(1,280)
Income tax paid	(634)	(636)
<b>Cash was applied to operating activities</b>	<b>(116,410)</b>	<b>(141,194)</b>
<b>Net cash flow from operating activities</b>	<b>7,285</b>	<b>(3,573)</b>
<b>Investing activities</b>		
<b>Cash was provided from</b>		
Sale of property, plant and equipment	-	2,146
<b>Cash was provided from investing activities</b>	<b>-</b>	<b>2,146</b>
<b>Cash was applied to</b>		
Purchase of property, plant and equipment	(3,377)	(2,823)
Purchase of intangibles	(1,954)	(2,924)
Investment in shares & associates	(1,663)	-
<b>Cash was applied to</b>	<b>(6,994)</b>	<b>(5,747)</b>
<b>Net cash flow from investing activities</b>	<b>(6,994)</b>	<b>(3,601)</b>
<b>Financing activities</b>		
<b>Cash was provided from</b>		
Proceeds from borrowings	-	711
<b>Cash was provided from financing activities</b>	<b>-</b>	<b>711</b>
<b>Net cash flow from financing activities</b>	<b>-</b>	<b>711</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>291</b>	<b>(6,463)</b>
Effects of exchange rate changes on cash and cash equivalents	378	433
Cash and cash equivalents at the beginning of the year	(1,230)	4,800
<b>Cash and cash equivalents at the end of the year</b>	<b>(561)</b>	<b>(1,230)</b>
<b>Composition of cash and cash equivalents</b>		
Cash and cash equivalents	3,370	4,858
Bank overdraft	(3,931)	(6,088)
<b>Total cash and cash equivalents</b>	<b>(561)</b>	<b>(1,230)</b>

The accompanying notes form an integral part of these financial statements.

## Statement of Cash Flows

For the year ended 31 March 2016

	2016	2015
	\$000s	\$000s
<b>Reconciliation of net (loss)/profit to net cash flows from operating activities</b>		
<b>Reported net (loss)/profit after tax</b>	<b>(1,731)</b>	<b>3,190</b>
<b>Items not involving cash flow</b>		
Depreciation expense	3,945	6,103
Amortisation expense	2,675	1,835
(Decrease)/increase in estimated doubtful debts	(24)	56
Provision for restructure	195	(334)
Employee share based payments	81	58
Movement in foreign currency	(68)	(1,323)
Share of profit and dividends from joint venture and associate	2,131	(2,106)
Deferred tax	160	(2,656)
Loss/(gain) on disposal of property, plant and equipment	115	(1,180)
Loss/(gain) on disposal of intangibles	1	288
<b>Total items not involving cash flow</b>	<b>9,211</b>	<b>741</b>
<b>Impact of changes in working capital items</b>		
Trade and other receivables	5,464	(537)
Provision for restructure	(850)	(4,676)
Inventories	(1,114)	(126)
Trade and other payables	(4,060)	(1,858)
Tax provisions	365	(307)
<b>Total impact of changes in working capital items</b>	<b>(195)</b>	<b>(7,504)</b>
<b>Net cash flow from operating activities</b>	<b>7,285</b>	<b>(3,573)</b>

The accompanying notes form an integral part of these financial statements.



## A. General information

Rakon Limited ('the Company') and its subsidiaries ('the Group') designs and manufactures frequency control solutions for a wide range of applications. Rakon has leading market positions in the supply of crystal oscillators to the telecommunications, global positioning and space & defence markets. The Company is a limited liability company incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993 with its registered office at 8 Sylvia Park Road, Mt Wellington, Auckland.

The financial statements of the Group have been presented in a new structure designed to improve their usefulness and clarity. All amounts are presented in New Zealand dollars unless otherwise indicated.

The financial statements have been approved for issue by Rakon's Board of Directors ('the Board') on 19 May 2016.

## B. Calculation of key numbers

### B1. Segment information

The chief operating decision maker assesses the performance of the operating segments based on a non-GAAP measure of 'Underlying EBITDA' defined as:

"Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures share of interest, tax & depreciation, loss on disposal of assets and other non-cash items (Underlying EBITDA)."

Underlying EBITDA is a non-GAAP measure that has not been presented 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.

Underlying EBITDA as non-GAAP financial information has been extracted from the financial statements audited for the full year. Except for Underlying EBITDA, other information provided to the chief operating decision maker is measured in a manner consistent with GAAP. The Directors provide a reconciliation of Underlying EBITDA to net profit or loss for the year.

#### B1 a) Accounting policy

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director, Marketing Director and Chief Financial Officer.

#### B1 b) Segment results

31 March 2016

	NZ \$000s	UK <sup>6</sup> \$000s	France \$000s	China - T'maker <sup>1</sup> \$000s	India - Centum Rakon <sup>2</sup> \$000s	Other <sup>3</sup> \$000s	Total \$000s
Sales to external customers	74,661	5	38,071	-	-	-	112,737
Inter-segment sales	162	-	-	-	-	55	217
Segment revenue	74,823	5	38,071	-	-	55	112,954
Underlying EBITDA	9,526	1,873	(4,481)	217	1,026	847	9,008
Depreciation and amortisation	4,436	745	1,237	-	-	202	6,620
Income tax (expense)/credit	342	(253)	(1,006)	-	-	43	(874)
Total assets <sup>4</sup>	60,931	10,144	31,279	8,689	6,798	3,435	121,276
Investment in associates	-	-	-	8,689	-	1,626	10,315
Investment in joint venture	-	-	-	-	6,798	-	6,798
Additions of property, plant, equipment and intangibles	3,440	729	1,378	-	-	-	5,547
Total liabilities <sup>5</sup>	27,185	671	9,457	-	-	535	37,848

31 March 2015

	NZ	UK <sup>6</sup>	France	China - T'maker <sup>1</sup>	India - Centum Rakon <sup>2</sup>	Other <sup>3</sup>	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Sales to external customers	61,002	9,759	60,656	-	-	-	131,417
Inter-segment sales	448	6,360	9	-	-	-	6,817
Segment revenue	61,450	16,119	60,665	-	-	-	138,234
Underlying EBITDA	4,351	3,646	560	764	5,923	125	15,369
Depreciation and amortisation	5,647	1,118	908	-	-	265	7,938
Income tax credit/(expense)	2,309	(362)	26	-	-	(327)	1,646
Total assets <sup>4</sup>	65,560	10,307	31,207	8,697	7,015	2,068	124,854
Investment in associates	-	-	-	8,697	-	-	8,697
Investment in joint venture	-	-	-	-	7,015	-	7,015
Additions of property, plant, equipment and intangibles	2,786	1,041	1,881	-	-	-	5,708
Total liabilities <sup>5</sup>	33,303	608	9,831	-	-	1,703	45,445

<sup>1</sup> Includes Rakon Limited's 40% share of investment in Chengdu Shen-Timemaker Crystal Technology Co. Limited, Chengdu Timemaker Crystal Technology Co, Limited and Shenzhen Taixiang Wafer Co, Limited.

<sup>2</sup> Includes Rakon Limited's 49% share of investment in Centum Rakon India Private Limited.

<sup>3</sup> Includes investments in subsidiaries, Rakon Financial Services Ltd, Rakon UK Holdings Ltd, Rakon Investment HK Limited, Rakon HK Limited and Rakon Limited's 40% interest in Thinextra Pty Limited.

<sup>4</sup> The measure of assets has been disclosed for each reportable segment as it is regularly provided to the chief operating decision maker and excludes intercompany balances eliminated on consolidation.

<sup>5</sup> The measure of liabilities has been disclosed for each reportable segment as it is regularly provided to the chief operating decision maker and excludes intercompany balances eliminated on consolidation.

<sup>6</sup> The UK manufacturing facility (in Lincoln) was relocated in 2015 with the transfer of production and sales to New Zealand.

### B1 c) Reconciliation of Underlying EBITDA to net (loss)/profit for the year

	2016 \$000s	2015 \$000s
<b>Continuing operations</b>		
Underlying EBITDA	9,008	15,369
Depreciation and amortisation	(6,620)	(7,938)
Employee share schemes	(81)	(58)
Finance costs - net	(1,125)	(1,272)
Adjustment for associates and joint venture share of interest, tax & depreciation	(2,118)	(3,600)
Loss on asset sales/disposal	(120)	(596)
Other non-cash items	199	(361)
<b>(Loss)/profit before income tax</b>	<b>(857)</b>	<b>1,544</b>
Income tax (expense)/credit	(874)	1,646
<b>Net (loss)/profit for the year</b>	<b>(1,731)</b>	<b>3,190</b>

## B2. Profit & loss information

### B2 a) Revenue

#### Accounting policy

Revenue comprises the fair value of amounts received and receivable by the Group for goods and services supplied in the ordinary course of business. Revenue is stated net of goods and services tax (or value added tax) collected from customers. Revenue from the sale of goods is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer and the amount can be measured reliably. Revenue from services rendered is recognised in the statement of comprehensive income, in proportion to the stage of completion of the transaction at the balance date.

#### Breakdown of revenue by goods and services

Revenue from all sources is as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$000s</b>	<b>\$000s</b>
Sales of goods	111,587	130,977
Revenue from services	1,150	440
<b>Total revenue</b>	<b>112,737</b>	<b>131,417</b>

#### Breakdown of revenue by region

The Group's trading revenue is derived in the following regions. Revenue is allocated based on the country in which the customer is located.

	<b>2016</b>	<b>2015</b>
	<b>\$000s</b>	<b>\$000s</b>
Asia	48,725	65,252
North America	23,927	17,793
Europe	37,217	45,576
Others	2,868	2,796
<b>Total revenue by region</b>	<b>112,737</b>	<b>131,417</b>

#### Breakdown of revenue by market segment

	<b>2016</b>	<b>2015</b>
	<b>\$000s</b>	<b>\$000s</b>
Telecommunications	53,422	71,318
Global Positioning	31,451	30,351
Space and Defence	25,265	23,051
Other	2,599	6,697
<b>Total revenue by market segment</b>	<b>112,737</b>	<b>131,417</b>

## B2 b) Other operating income

### Accounting policy

Dividend income is recognised when the right to receive payment is established. Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

### Breakdown of other operating income

	2016 \$000s	2015 \$000s
Dividend income	1	1
Rental income	23	16
Other income	101	233
<b>Total other operating income</b>	<b>125</b>	<b>250</b>

## B2 c) Operating expenses

	2016 \$000s	2015 \$000s
<b>Operating expense by function</b>		
Selling and marketing costs	10,377	9,797
Research and development	12,059	11,149
General and administration	25,330	25,300
<b>Total operating expenses</b>	<b>47,766</b>	<b>46,246</b>
<b>Operating expenses include</b>		
Depreciation – inclusive of depreciation included in cost of sales	3,945	6,103
Amortisation	2,675	1,835
Research and development expense	14,779	13,285
Research and development tax credit, and government grant	(2,720)	(2,136)
Restructure cost	195	(334)
Rental expense on operating leases	2,281	2,261
<b>Costs of offering credit</b>		
Bad debt write-offs	(131)	(79)
<b>Governance expenses</b>		
Directors' fees	360	360
<b>Auditors' fees</b>		
Principal auditors		
Audit fees for current year	382	369
Share registry audit	3	3
Treasury advisory services	25	25
Audit services other auditors	20	18
<b>Sundry expenses</b>		
Donations	3	3

**B2 d) Other gains – net**

	<b>2016</b>	<b>2015</b>
	<b>\$000s</b>	<b>\$000s</b>
(Loss)/gain on disposal of property, plant, equipment and intangibles <sup>1</sup>	(117)	892
<b>Foreign exchange gains/(losses) – net</b>		
Forward foreign exchange contracts		
Held for trading	275	(51)
Gains on revaluation of foreign denominated monetary assets and liabilities <sup>2</sup>	713	3,000
<b>Total foreign exchange gains – net</b>	<b>988</b>	<b>2,949</b>
<b>Total other gains – net</b>	<b>871</b>	<b>3,841</b>

<sup>1</sup> Includes £593,000 gain from the sale of land and buildings at Sadler Road, Lincoln, UK completed subsequent to the relocation of Rakon's manufacturing facility in 2015.

<sup>2</sup> Includes realised and unrealised gains/(losses) arising from accounts receivable and accounts payable. Hedge accounting is sought on the initial sale of goods and purchase of inventory, subsequent movements are recognised in trading foreign exchange.

**B2 e) Employee benefits expenses****Accounting policy**

Employee entitlements to salaries, wages and annual leave to be settled within 12 months of balance date represent present obligations resulting from employee's services provided up to the balance date. These are calculated at undiscounted amounts based on remuneration rates that the entity expects to pay.

**Breakdown of employee benefits expenses**

	<b>2016</b>	<b>2015</b>
	<b>\$000s</b>	<b>\$000s</b>
Wages and salaries	41,870	43,010
Contributions to defined contribution plans	576	531
Increase in liability for French retirement indemnity plan (note D3 b))	248	269
Increase in liability for long service leave (note D3 b))	102	52
Redundancy cost (note D3 b))	195	(334)
Employee share scheme (note D6)	81	58
<b>Total employee benefits expenses</b>	<b>43,072</b>	<b>43,586</b>

**B2 f) Net finance (costs)/income****Accounting policy**

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

**Breakdown of finance (costs)/income**

	<b>2016</b>	<b>2015</b>
	<b>\$000s</b>	<b>\$000s</b>
<b>Financial income</b>		
Interest income	3	4
<b>Financial expenses</b>		
Interest expense on bank borrowings	(1,128)	(1,276)
<b>Net finance (costs)</b>	<b>(1,125)</b>	<b>(1,272)</b>

## B2 g) Income tax expense

	2016	2015
	\$000s	\$000s
Current tax	(713)	(1,010)
Deferred tax (expense)/credit	(161)	2,656
<b>Income tax (expense)/credit</b>	<b>(874)</b>	<b>1,646</b>

The tax on the Group's result before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities.

	2016	2015
	\$000s	\$000s
<b>Reconciliation of income tax expense</b>		
(Loss)/profit before tax	(857)	1,544
Tax calculated at domestic tax rates applicable to profits in the respective countries	459	304
Foreign exchange difference in income tax calculation	(10)	14
Expenses not deductible	(47)	-
Non-taxable income	-	45
Expenses deductible for tax purposes	41	90
Income taxable for tax purposes	(83)	-
Prior year adjustment	(447)	2,312
Associate and joint venture results reported net of tax	(153)	306
Forfeited non resident withholding tax and branch foreign tax	-	(94)
Recognition and utilisation of previously unrecognised tax losses	1,148	-
Tax losses for which no deferred income tax asset was recognised	(1,782)	(1,331)
<b>Income tax (expense)/credit</b>	<b>(874)</b>	<b>1,646</b>

The weighted average applicable tax rate was -86% (2015: -106%).

## B3. Goodwill

### B3 a) Accounting policy

Goodwill acquired in a business combination is initially measured at cost and is the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the acquired subsidiary, associate or joint venture, the difference is recognised in profit or loss. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in 'interest in associates/interest in joint ventures' and is tested for impairment as part of the overall balance.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Expenditure on internally generated goodwill and brands is recognised in the statement of comprehensive income as an expense as incurred.

### B3 b) Critical accounting estimates and assumptions – impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on 'value in use' calculations. These calculations require the use of estimates.

#### Key assumptions used in 'value in use' calculations

Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. The sales volume growth rates do not exceed the long-term average growth rate for the frequency control products business in which the CGUs operate.

	Growth rate		Discount rate	
	2016	2015	2016	2015
New Zealand	2.5%	2.5%	15.0%	12.8%
United Kingdom	2.5%	2.5%	13.7%	11.0%
France	2.5%	2.5%	14.7%	9.7%
China	2.5%	2.5%	14.3%	10.0%
India	2.5%	2.5%	27.4%	20.4%

*Discount rates* – Discount rates reflect management’s estimate of the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the yield on a ten year government bond at the beginning of the forecast year.

*Sales growth* – Management have determined sales to grow over the period of the cash flow projection, due to a combination of factors including industry forecasts for the key market segments in which Rakon operates, future product innovation and estimations of its own share of the market reflective of the quality of its product range and technology advantages.

*Gross margin* – Management determined budgeted gross margin based on past performance and its expectations of market development also taking into account gradual decline in average selling prices. Anticipated industry trends, product innovations, manufacturing efficiency and raw material cost improvements have also been factored into these gross margin assumptions.

These assumptions have been used for the analysis of each CGU within the business segment. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

***Impairment tests for goodwill***

Goodwill is allocated to the Group’s cash generating units identified according to country of operation.

A geographical level summary of the goodwill allocation is presented below:

	<b>2016</b>	<b>2015</b>
	<b>(\$000s)</b>	<b>(\$000s)</b>
France	594	562
India – OCXO products transferred from France	1,741	1,647
<b>Goodwill recognised in intangible assets</b>	<b>2,335</b>	<b>2,209</b>

The recoverable amount of a CGU is determined based on ‘value in use’ calculations. These calculations use pre-tax cash flow projections based on financial forecasts covering a five year period due to product life cycles, pricing trends and longer term expected currency trends.

Due to an increase in data traffic, investment into new network infrastructure is expected from telecommunication operators. With Rakon maintaining a leading technology position, the Group is expected to benefit from this investment, with the future cash flow projections continuing to support the carrying of goodwill balances for the France and India CGUs, where network infrastructure is a prime or significant market.

**B4. Impairment**

The Group, as required by NZ IFRS, has assessed as at 31 March 2016 whether any indicators of impairment exist. In doing so management and the Directors have considered factors including the current profitability of the Group and the market capitalisation value of the Company in comparison to the Group’s net asset value. In undertaking such an assessment, no impairment was identified and the Directors consider the net asset value of the Group to be appropriate.



## ***Independent Auditors' Report*** to the shareholders of Rakon Limited

### ***Report on the Consolidated Financial Statements***

We have audited the consolidated financial statements of Rakon Limited ("the Company") on pages 3 to 45, which comprise the balance sheet as at 31 March 2016, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 March 2016 or from time to time during the financial year.

### ***Directors' Responsibility for the Consolidated Financial Statements***

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We are independent of the Group. Our firm carries out other services for the Group in the areas of share registry audit, treasury advisory services and agreed upon procedures over the half year financial statements. The provision of these other services has not impaired our independence.





## ***Independent Auditors' Report*** Rakon Limited

### ***Opinion***

In our opinion, the consolidated financial statements on pages 3 to 45 present fairly, in all material respects, the financial position of the Group as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

### ***Restriction on Use of our Report***

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

*PricewaterhouseCoopers*

Chartered Accountants  
19 May 2016

Auckland

## Other Information

### A. Dividends (NZX Listing Rules Appendix 1: 1.3(d))

The Board of Directors has declared that no dividend is to be paid for FY2016. Rakon maintains a dividend policy such that it will pay a dividend of up to 50% of the after tax profit, if considered fiscally appropriate. The payment of dividends is subject to the approval of Rakon's bank, ASB Bank, under its facility arrangement.

### B. Net Tangible Assets per Security (NZX Listing Rules Appendix 1: 1.3(g))

	31 March 2016	31 March 2015
Net tangible assets \$000	68,578	64,862
Number of ordinary securities 000	191,039	191,039
Net tangible asset backing per ordinary security \$	0.36	0.34

### C. Control gained and lost over Entities (NZX Listing Rules Appendix 1: 1.3(h))

Rakon Limited has gained or lost control over the following entities during the period:

During the period there was no change in control through new entities gained or existing entities lost.

### D. Associates & Joint Ventures (NZX Listing Rules Appendix 1: 1.3(i))

Rakon Limited has the following associate entities and joint venture arrangements.

	Shareholding
Centum Rakon India Private Limited	49%
Chengdu Timemaker Crystal Technology Co, Limited	40%
Chengdu Shen-Timemaker Crystal Technology Co, Limited	40%
Shenzhen Taixiang Wafer Co, Limited	40%
Thinextra Pty Limited	40%

The contribution of Centum Rakon India to Rakon Limited's net results from ordinary activities is a net loss after tax of \$103,000 (March 2015: net profit after tax: \$3,293,000). The contribution of Chengdu Timemaker, Chengdu Shen-Timemaker and Shenzhen Taixiang to Rakon Limited's net results from ordinary activities is a net loss after tax of \$704,000 (March 2015: net loss after tax \$140,000). The contribution of Thinextra to Rakon Limited's net results from ordinary activities is a net loss after tax of \$95,000 (March 2015: nil).

### E. Audit (NZX Listing Rules Appendix 1: 1.3(l))

The financial statements have been audited and are not subject to any qualification.

### F. Business Changes (NZX Listing Rules Appendix 1: 1.3(m))

During the period the company invested \$1.7 million in Thinextra Pty Limited. Thinextra is a start-up 'internet of things' (IoT) company focused on deploying a wireless telecommunications network in Australia and New Zealand. On 4 April 2016 Rakon invested a further AUD \$4.2 million in Thinextra.

There have been no other major changes or trends in Rakon Limited's business, either during the period or subsequent to the financial year end.

### G. Directors Declaration (NZX Listing Rules Appendix 1, 3.1 & 3.2)

The Directors declare that the selected consolidated financial information on pages 4 to 14 has been prepared in compliance with applicable Financial Reporting Standards and extracted from the audited financial statements. The accounting policies the Directors consider critical to the portrayal of the company's financial condition and results which require judgements and estimates about matters which are inherently uncertain are disclosed in each note of the audited financial statements that form part of this announcement.