

<b>Rakon Limited</b>	
<b>Results for announcement to the market</b>	
<b>Reporting period</b>	6 months to 30 <sup>th</sup> September 2014
<b>Previous reporting period</b>	6 months to 30 <sup>th</sup> September 2013

<b>Unaudited</b>	<b>Amount NZ\$000</b>	<b>% Change</b>
<b>Revenue from ordinary activities</b>	61,371	-24%
<b>Underlying EBITDA<sup>c</sup></b> (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)	4,265 <sup>a</sup>	191%
<b>(Loss)/profit from ordinary activities after tax attributable to security holders</b>	(3,368) <sup>b</sup>	92%
<b>Net (loss)/profit attributable to security holders</b>	(3,368) <sup>b</sup>	92%

*Note a: includes share of Underlying EBITDA from associates and joint ventures of \$3,518,000 (September 2013: \$2,870,000).*

*b: includes equity accounted earnings from associates and joint ventures of \$1,770,000 (September 2013: \$1,365,000).*

*c: Further information regarding the disclosure and use of non-GAAP financial information is disclosed at Note 3 (Notes to the Unaudited Consolidated Interim Financial Statements) in this results announcement.*

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

## COMMENTS

### 13 NOVEMBER 2014 (RAK)

#### RAKON INTERIM RESULT DEMONSTRATES POSITIVE IMPACT OF STRATEGIC REALIGNMENT INITIATIVES

- Improvement in unaudited net loss after tax: HY2015 NZ\$3.4 million vs NZ\$45.7 million in HY2014
- 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 mainly from improved working capital efficiencies and reduced capital spend
- Reaffirm FY2015 earnings guidance of Underlying EBITDA of between NZ\$10 million to NZ\$15 million

NZD Millions, Unaudited	HY15	HY14	% Change	FY14
Revenue	61.4	80.5	(23.7)	150.0
Underlying EBITDA*	4.3	(4.7)	(>100.0)	(7.5)
Net loss after tax (consolidated)	(3.4)	(45.7)	(92.6)	(83.8)
Operating cash flow	(0.0)	7.8	(>100.0)	12.5
Bank borrowings	11.8	36.9	(68.0)	10.9
Net debt	8.2	27.1	(70.0)	6.4

\* A detailed reconciliation of Underlying EBITDA to net loss after tax, is included at Note 3 of the Unaudited Interim Financial Statements.

Rakon Limited (NZX: RAK) (“Rakon” or “the Company”) today reports 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. Pleasingly, HY2015 ‘Underlying EBITDA’ was a profit of NZ\$4.3 million compared to a loss of NZ\$4.7 million in HY2014.

Brent Robinson, Rakon CEO, said *“the result is in line with our expectations for the first half of FY2015. The positive impact of our significant structural realignment programme taking place over 2013-2014 is starting to show through in our financial results. While revenues have declined as planned, it is pleasing to see that our strategy to focus on better product and operating margins is taking effect.”*

The Company’s closure of its Lincoln, UK plant has been completed within our targeted timeframe and the manufacturing capability has been transferred to New Zealand resulting in increased efficiencies. While the first half result continued to carry the Lincoln plant operating expenses, Mr Robinson said *“the company will now benefit from reduced operating expenses in the second half as a result of the closure”*.

Rakon has experienced growth in the Telecommunications market following on from FY2014. New mobile phone 4G technology is driving new telecommunications infrastructure, with Rakon capturing strong growth from 4G deployments of new Base Station equipment. 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.

Rakon reported borrowings of NZ\$12.0 million and net debt of NZ\$8.2 million. Net debt was considerably below the company’s 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 -NZ\$30k were NZ\$3.6 million before adjusting for cash outflows relating to FY2014 restructuring.

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

*“The company is now positioned to take advantage of the structural realignment programme and return to profit with the second half outlook for stronger profitability. Rakon has already significantly reduced its operating expenses compared to FY2014 which will further reduce in the second half. The company will focus 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 further advantage of the Telecommunications growth that we are experiencing”, Mr Robinson said.*

Rakon reaffirms its FY2015 earnings guidance of Underlying EBITDA of between NZ\$10 million to NZ\$15 million.

The Directors confirm that this HY2015 preliminary results announcement is based on unaudited results. A detailed reconciliation of Underlying EBITDA to net loss after tax, is included at Note 3 of the Unaudited Interim Financial Statements.

-ends-

Contact:

Brent Robinson

Chief Executive Officer

Rakon 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 design and manufacture advanced frequency control and timing solutions. Rakon has eight manufacturing plants including four joint ventures plants and five research and development centres. Customer support centres are located in 13 offices worldwide. Rakon is a public company listed on the New Zealand stock exchange, NZSX, ticker code RAK.

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

The Directors declare that the selected consolidated financial information on pages 4 to 16 have been prepared in compliance with applicable Financial Reporting Standards and extracted from the unaudited interim 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 note 2 of the unaudited consolidated interim financial statements that form part of this announcement.

## Unaudited Consolidated Interim Statement of Comprehensive Income

		Unaudited six months ended 30 September 2014 (\$000s)	Unaudited six months ended 30 September 2013 (\$000s)	Audited year ended 31 March 2014 (\$000s)
	<b>Note</b>			
<b>Continuing operations</b>				
Revenue	3	61,371	80,481	149,951
Cost of sales		(44,402)	(64,404)	(121,231)
<b>Gross profit</b>		<b>16,969</b>	<b>16,077</b>	<b>28,720</b>
Other operating income		1,244	1,418	3,056
Operating expenses	4	(24,173)	(31,109)	(59,363)
Other (losses)/gains – net	5	1,625	(157)	(1,902)
Impairment		-	(7,545)	(19,920)
<b>Operating loss</b>		<b>(4,335)</b>	<b>(21,316)</b>	<b>(49,409)</b>
Finance income		3	2	5
Finance costs		(534)	(985)	(1,722)
Share of profit of associates and joint venture		1,777	1,365	1,700
<b>Loss before income tax</b>		<b>(3,089)</b>	<b>(20,934)</b>	<b>(49,426)</b>
Income tax expense		(279)	(447)	(1,076)
<b>Net loss after tax from continuing operations</b>		<b>(3,368)</b>	<b>(21,381)</b>	<b>(50,502)</b>
<b>Discontinued operations</b>				
Loss from discontinued operations		-	(24,301)	(33,297)
<b>Net loss for the period</b>		<b>(3,368)</b>	<b>(45,682)</b>	<b>(83,799)</b>
<b>Other comprehensive income:</b>				
Items that may be reclassified subsequently to profit or loss:				
Increase/(decrease) in fair value cash flow hedges		(1,714)	950	758
Increase/(decrease) in fair value net investment hedge		(1,321)	827	942
Increase/(decrease) in fair value currency translation differences		3,850	3,615	4,366
Income tax relating to components of other comprehensive income		815	(423)	(403)
Foreign currency translation reserve related to disposal of ERC (non-controlling interest share)		-	154	480
<b>Other comprehensive income for the period, net of tax</b>		<b>1,630</b>	<b>5,123</b>	<b>6,143</b>
<b>Total comprehensive losses for the period</b>		<b>(1,738)</b>	<b>(40,559)</b>	<b>(77,656)</b>
<b>Loss attributable to:</b>				
Equity holders of the Company		(3,368)	(42,125)	(79,429)
Non-controlling interests		-	(3,557)	(4,370)
		<b>(3,368)</b>	<b>(45,682)</b>	<b>(83,799)</b>
<b>Total comprehensive losses attributable to:</b>				
Equity holders of the Company		(1,738)	(37,156)	(73,766)
Non-controlling interests		-	(3,403)	(3,890)
		<b>(1,738)</b>	<b>(40,559)</b>	<b>(77,656)</b>
<b>Earnings per share for (loss)/profit attributable to the equity holders of the Company:</b>				
		Cents	Cents	Cents
<i>Basic (losses)/earnings per share</i>				
From continuing operations		(1.8)	(11.2)	(26.7)
From discontinued operations		-	(11.1)	(15.0)
<b>From loss for the period</b>		<b>(1.8)</b>	<b>(22.3)</b>	<b>(41.7)</b>
<i>Diluted (losses)/earnings per share</i>				
From continuing operations		(1.7)	(11.2)	(26.4)
From discontinued operations		-	(11.1)	(14.9)
<b>From loss for the period</b>		<b>(1.7)</b>	<b>(22.3)</b>	<b>(41.3)</b>

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

## Unaudited Consolidated Interim Statement of Changes in Equity

	Share capital (\$000s)	Retained earnings/ (accumulated losses) (\$000s)	Other reserves (\$000s)	Equity (\$000s)	Non-controlling interests (\$000s)	Total equity (\$000s)
<b>Balance at 31 March 2013</b>	<b>173,881</b>	<b>8,310</b>	<b>(29,395)</b>	<b>152,796</b>	<b>3,890</b>	<b>156,686</b>
Net loss after tax for the half year ended 30 September 2013	-	(42,125)	-	(42,125)	(3,557)	(45,682)
Currency translation differences	-	-	3,615	3,615	154	3,769
Cash flow hedges, net of tax	-	-	759	759	-	759
Net investment hedge, net of tax	-	-	595	595	-	595
<b>Total comprehensive (losses)/income for the half</b>	<b>-</b>	<b>(42,125)</b>	<b>4,969</b>	<b>(37,156)</b>	<b>(3,403)</b>	<b>(40,559)</b>
Employee share schemes						
–value of employee services	-	-	21	21	-	21
<b>Balance at 30 September 2013</b>	<b>173,881</b>	<b>(33,815)</b>	<b>(24,405)</b>	<b>115,661</b>	<b>487</b>	<b>116,148</b>
Net loss after tax for the half year ended 31 March 2014	-	(37,304)	-	(37,304)	(813)	(38,117)
Currency translation differences	-	-	751	751	326	1,077
Cash flow hedges, net of tax	-	-	(140)	(140)	-	(140)
Net investment hedge, net of tax	-	-	83	83	-	83
<b>Total comprehensive (losses)/income for the half</b>	<b>-</b>	<b>(37,304)</b>	<b>694</b>	<b>(36,610)</b>	<b>(487)</b>	<b>(37,097)</b>
Employee share schemes						
–value of employee services	-	-	(84)	(84)	-	(84)
<b>Balance at 31 March 2014</b>	<b>173,881</b>	<b>(71,119)</b>	<b>(23,795)</b>	<b>78,967</b>	<b>-</b>	<b>78,967</b>
Net loss after tax for the half year ended 31 September 2014	-	(3,368)	-	(3,368)	-	(3,368)
Currency translation differences	-	-	3,850	3,850	-	3,850
Cash flow hedges, net of tax	-	-	(1,269)	(1,269)	-	(1,269)
Net investment hedge, net of tax	-	-	(951)	(951)	-	(951)
<b>Total comprehensive (losses)/income for the half</b>	<b>-</b>	<b>(3,368)</b>	<b>1,630</b>	<b>(1,738)</b>	<b>-</b>	<b>(1,738)</b>
Employee share schemes						
–value of employee services	-	-	6	6	-	6
<b>Balance at 30 September 2014</b>	<b>173,881</b>	<b>(74,487)</b>	<b>(22,159)</b>	<b>77,235</b>	<b>-</b>	<b>77,235</b>

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

## Unaudited Consolidated Interim Balance Sheet

		Unaudited as at 30 September 2014 (\$000s)	Unaudited as at 30 September 2013 (\$000s)	Audited as at 31 March 2014 (\$000s)
	Note			
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		7,609	11,166	9,211
Trade and other receivables		34,204	40,024	34,255
Derivatives – held for trading	2	18	392	-
Derivatives – cash flow hedges	2	248	1,295	1,056
Derivatives – interest rate swaps	2	-	72	-
Inventories		27,431	31,251	28,443
Current income tax asset		2	1	2
<b>Total current assets</b>		<b>69,512</b>	<b>84,201</b>	<b>72,967</b>
<b>Non-current assets</b>				
Trade and other receivables		-	-	-
Property, plant and equipment		23,111	33,095	24,374
Intangible assets		11,524	24,778	10,819
Investment in associate		8,702	8,494	7,666
Interest in joint venture		7,039	5,728	6,210
Deferred tax asset		6,941	4,233	6,349
<b>Total non-current assets</b>		<b>57,317</b>	<b>76,328</b>	<b>55,418</b>
Assets of disposal group classified as held for sale		-	36,165	-
<b>Total assets</b>		<b>126,829</b>	<b>196,694</b>	<b>128,385</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank overdraft	6	3,728	1,127	4,411
Borrowings	6	12,004	36,998	42
Trade and other payables		25,375	27,067	23,258
Derivatives – held for trading	2	143	-	-
Derivatives – cash flow hedges	2	1,350	-	-
Derivatives – interest rate swaps	2	30	-	23
Provisions	7	2,449	3,854	6,108
Current income tax liabilities		161	617	456
<b>Total current liabilities</b>		<b>45,240</b>	<b>69,663</b>	<b>34,298</b>
<b>Non-current liabilities</b>				
Borrowings	6	46	167	11,132
Provisions	7	2,145	2,564	1,825
Deferred tax liabilities		2,163	-	2,163
<b>Total non-current liabilities</b>		<b>4,354</b>	<b>2,731</b>	<b>15,120</b>
Liabilities of disposal group classified as held for sale		-	8,152	-
<b>Total liabilities</b>		<b>49,594</b>	<b>80,546</b>	<b>49,418</b>
<b>Net assets</b>		<b>77,235</b>	<b>116,148</b>	<b>78,967</b>
<b>Equity</b>				
Share capital		173,881	173,881	173,881
Reserves		(22,159)	(24,405)	(23,795)
Retained earnings/(accumulated losses)		(74,487)	(33,815)	(71,119)
		77,235	115,661	78,967
Non-controlling interests		-	487	-
<b>Total equity</b>		<b>77,235</b>	<b>116,148</b>	<b>78,967</b>

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

## Unaudited Consolidated Interim Statement of Cash Flows

	Unaudited six months ended 30 September 2014 (\$000s)	Unaudited six months ended 30 September 2013 (\$000s)	Audited year ended 31 March 2014 (\$000s)
<b>Operating activities</b>			
<b>Cash provided from</b>			
Receipts from customers	63,376	96,958	160,129
Interest received	5	2	5
Dividend received from associate/joint venture	1,048	1,161	1,162
R&D grants received	1,444	2,042	4,699
Other income received	114	138	365
	<b>65,987</b>	<b>100,301</b>	<b>166,360</b>
<b>Cash was applied to</b>			
Payment to suppliers and others	(36,441)	(64,009)	(102,170)
Payment to employees	(28,770)	(26,700)	(49,093)
Interest paid	(537)	(1,205)	(1,720)
Income tax paid	(269)	(612)	(890)
	<b>(66,017)</b>	<b>(92,526)</b>	<b>(153,873)</b>
<b>Net cash flow from operating activities</b>	<b>(30)</b>	<b>7,775</b>	<b>12,487</b>
<b>Investing activities</b>			
<b>Cash was provided from</b>			
Sale of property, plant and equipment	297	203	419
Sale of equity interest in subsidiary	-	-	22,535
Deposit received sale of subsidiary	-	1,825	-
	<b>297</b>	<b>2,028</b>	<b>22,954</b>
<b>Cash was applied to</b>			
Purchase of property, plant and equipment	(1,612)	(1,124)	(3,979)
Purchase of intangibles	(962)	(635)	(2,245)
Additional investment in subsidiary	-	(88)	-
	<b>(2,574)</b>	<b>(1,847)</b>	<b>(6,224)</b>
<b>Net cash flow from investing activities</b>	<b>(2,277)</b>	<b>181</b>	<b>16,730</b>
<b>Financing activities</b>			
<b>Cash was applied to</b>			
Repayment of principal on borrowings	-	-	(25,890)
	<b>-</b>	<b>-</b>	<b>(25,890)</b>
<b>Net cash flow from financing activities</b>	<b>-</b>	<b>-</b>	<b>(25,890)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(2,307)</b>	<b>7,956</b>	<b>3,327</b>
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
<b>Cash and cash equivalents at the end of the period</b>	<b>3,881</b>	<b>10,039</b>	<b>4,800</b>
<b>Composition of cash and cash equivalents</b>			
Cash and cash equivalents	7,609	11,166	9,211
Bank overdraft	(3,728)	(1,127)	(4,411)
	<b>3,881</b>	<b>10,039</b>	<b>4,800</b>

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

## Unaudited Consolidated Interim Statement of Cash Flows

	Note	Unaudited six months ended 30 September 2014 (\$000s)	Unaudited six months ended 30 September 2013 (\$000s)	Audited year ended 31 March 2014 (\$000s)
<b>Reconciliation of net loss to net cash flows from operating activities</b>				
<b>Reported net loss after tax</b>		<b>(3,368)</b>	<b>(45,682)</b>	<b>(83,799)</b>
<b>Adjustments for</b>				
Depreciation expense		3,814	4,337	15,441
Amortisation expense		941	891	1,794
Increase/(decrease) in estimated doubtful debts		(2)	40	82
Employee share based payments		6	21	(63)
Movement in provisions	8	(3,339)	-	5,857
Movement in foreign currency		(1,039)	1,790	69
Share of profit from joint venture and associate		(726)	(1,359)	(515)
Impairment		-	7,544	19,920
Loss on sale of shares in subsidiary		-	-	9,339
Impairment of assets in subsidiary		-	25,137	25,137
Deferred tax		(67)	259	(399)
(Gain)/loss on disposal of property, plant and equipment		(19)	(75)	388
		<b>(431)</b>	<b>38,585</b>	<b>77,050</b>
<b>Impact of changes in working capital items</b>				
Trade and other receivables		248	6,769	11,423
Inventories		923	9,945	13,683
Trade and other payables		2,914	(1,525)	(6,984)
Tax provisions		(316)	(317)	1,114
		<b>3,769</b>	<b>14,872</b>	<b>19,236</b>
<b>Net cash flow from operating activities</b>		<b>(30)</b>	<b>7,775</b>	<b>12,487</b>

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



# Notes to the Unaudited Consolidated Interim Financial Statements

## 1 General information

Rakon Ltd ('the Company') and its subsidiaries ('the Group') is a world leader in the development of frequency control solutions for a wide range of applications. Rakon has leading market positions in the supply of crystal oscillators to the GPS, telecommunications network timing/synchronisation and aerospace 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 Company is an issuer in terms of the Securities Act 1978 and is listed on the New Zealand Stock Exchange.

These financial statements have been approved for issue by the Board of Directors on 13 November 2014.

## 2 Summary of significant accounting policies

### 2.1 Basis of preparation

The interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting [and IAS 34 Interim Financial Reporting] and consequently, do not include all the information required for full financial statements. These condensed Group interim financial statements should be read in conjunction with the annual report for the year ended 31 March 2014. All amounts are in New Zealand dollars unless stated otherwise.

The interim financial statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the New Zealand Stock Exchange (NZX). Rakon Ltd is registered under the Companies Act 1993 and will become an FMC Reporting Entity under the Financial Markets Conduct Act 2013 on 1 December 2014.

### 2.2 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2014.

### 2.3 Fair value of financial instruments

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data. Investments in unlisted equity shares for which there is currently no active market, are valued at cost less impairment.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the following tables.

	Valuation technique – market observable inputs (Level 2) (\$000s)	Valuation technique – market observable inputs (Level 3) (\$000s)	Total (\$000s)
<b>At 30 September 2014</b>			
<i>Financial assets</i>			
Derivative instruments			
Foreign exchange contracts and collar options – held for trading	18	-	18
Foreign exchange contracts and collar options – cash flow hedges	248	-	248
	<b>266</b>	-	<b>266</b>
<i>Financial liabilities</i>			
Derivative instruments			
Interest rate swaps	30	-	30
Foreign exchange contracts and collar options – held for trading	143	-	143
Foreign exchange contracts and collar options – cash flow hedges	1,350	-	1,350
	<b>1,523</b>	-	<b>1,523</b>

	Valuation technique – market observable inputs (Level 2) (\$000s)	Valuation technique – market observable inputs (Level 3) (\$000s)	Total (\$000s)
<b>At 31 March 2014</b>			
<i>Financial assets</i>			
Derivative instruments			
Foreign exchange contracts and collar options – held for trading	-	-	-
Foreign exchange contracts and collar options – cash flow hedges	1,056	-	1,056
	<b>1,056</b>	-	<b>1,056</b>
<i>Financial liabilities</i>			
Derivative instruments			
Interest rate swaps	23	-	23
Foreign exchange contracts and collar options – held for trading	-	-	-
Foreign exchange contracts and collar options – cash flow hedges	-	-	-
	<b>23</b>	-	<b>23</b>

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The Group's foreign exchange contracts are Level 2 at 30 September 2014 and 31 March 2014.

Specific valuation techniques include:

The fair value of forward foreign exchange contracts and collars is determined using forward exchange rate at the balance sheet date, with the resulting value discounted back to present value.

The fair value of unlisted equity securities has been estimated by discounting the present value of the net cash inflows from expected future dividends, or subsequent disposal of the securities.

There were no transfers between categories during the year.

#### 2.4 New applicable accounting standards and IFRIC interpretations issued but not yet adopted by the Group

NZ IFRS 9, "Financial Instruments", was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group is yet to assess NZ IFRS 9's full impact.

NZ IFRS 15, "Revenue from contracts with customers" addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Group is yet to assess NZ IFRS 15's full impact.

#### 2.5 Comparatives

Certain comparative balances have been restated in order to conform with current period presentation.

### 3 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 unaudited financial statements for the half year and the audited financial statements for the full year. Except as noted below, other information provided to the chief operating decision maker is measured in a manner consistent with that in the financial statements. The Directors provide a reconciliation of Underlying EBITDA to net loss for the period including additional disclosure by continuing and discontinued operations.

#### Unaudited six months ended 30 September 2014

	NZ (\$000s)	UK (\$000s)	France (\$000s)	China - T'maker <sup>6</sup> (\$000s)	India - Centum Rakon <sup>5</sup> (\$000s)	Other <sup>1</sup> (\$000s)	Total continued operations (\$000s)	Discontinued operations (\$000s)	Total (\$000s)
Sales to external customers	23,245	9,946	28,150	-	-	30	61,371	-	61,371
Inter-segment sales	392	5,343	9	-	-	(247)	5,497	-	5,497
Segment revenue	23,637	15,289	28,159	-	-	(217)	66,868	-	66,868
<b>Underlying EBITDA</b>	<b>(920)</b>	<b>1,555</b>	<b>(32)</b>	<b>504</b>	<b>3,014</b>	<b>144</b>	<b>4,265</b>	-	<b>4,265</b>
Depreciation and amortisation	(3,398)	(716)	(484)	-	-	(157)	(4,755)	-	(4,755)
Income tax expense	(52)	(125)	-	-	-	(101)	(278)	-	(278)
<b>Total assets<sup>3</sup></b>	<b>54,278</b>	<b>25,868</b>	<b>30,608</b>	<b>8,702</b>	<b>7,039</b>	<b>(742)</b>	<b>125,753</b>	-	<b>125,753</b>
Investment in associates	-	-	-	8,702	-	-	8,702	-	8,702
Investment in joint venture	-	-	-	-	7,039	-	7,039	-	7,039
Additions of property, plant, equipment and intangibles	1,232	614	932	-	-	-	2,778	-	2,778
<b>Total liabilities<sup>3</sup></b>	<b>25,395</b>	<b>5,000</b>	<b>18,539</b>	-	-	<b>660</b>	<b>49,594</b>	-	<b>49,594</b>

#### Unaudited six months ended 30 September 2013

	NZ (\$000s)	UK (\$000s)	France (\$000s)	China - T'maker <sup>6</sup> (\$000s)	India - Centum Rakon <sup>5</sup> (\$000s)	Other <sup>1</sup> (\$000s)	Total continued operations (\$000s)	Discontinued operations <sup>4</sup> (\$000s)	Total (\$000s)
Sales to external customers	38,644	13,066	28,429	-	-	342	80,481	473	80,954
Inter-segment sales	2,713	1,751	-	-	-	-	4,464	7,554	12,018
Segment revenue	41,357	14,817	28,429	-	-	342	84,945	8,027	92,972
<b>Underlying EBITDA<sup>2</sup></b>	<b>(4,501)</b>	<b>2,580</b>	<b>(5,639)</b>	<b>458</b>	<b>2,412</b>	<b>(71)</b>	<b>(4,761)</b>	<b>52</b>	<b>(4,709)</b>
Depreciation and amortisation	(3,195)	(584)	(367)	-	-	-	(4,146)	(946)	(5,092)
Goodwill impairment	(7,545)	-	-	-	-	-	(7,545)	(21,516)	(29,061)
Income tax expense	(112)	(285)	-	-	-	(16)	(413)	-	(413)
<b>Total assets<sup>3</sup></b>	<b>72,373</b>	<b>39,300</b>	<b>33,917</b>	<b>8,494</b>	<b>5,728</b>	<b>717</b>	<b>160,529</b>	<b>36,165</b>	<b>196,694</b>
Investment in associates	-	-	-	8,494	-	-	8,494	-	8,494
Investment in joint venture	-	-	-	-	5,728	-	5,728	-	5,728
Additions of property, plant, equipment and intangibles	1,626	853	979	-	-	-	3,458	223	3,681
<b>Total liabilities<sup>3</sup></b>	<b>34,730</b>	<b>5,912</b>	<b>31,752</b>	-	-	-	<b>72,394</b>	<b>8,152</b>	<b>80,546</b>

Audited year ended 31 March 2014

	NZ (\$000s)	UK (\$000s)	France (\$000s)	China - Timaker <sup>6</sup> (\$000s)	India - Centum Rakon <sup>5</sup> (\$000s)	Other <sup>1</sup> (\$000s)	Total continued operations (\$000s)	Discontinued operations <sup>4</sup> (\$000s)	Total (\$000s)
Sales to external customers	67,734	26,413	56,301	-	-	(497)	149,951	404	150,355
Inter-segment sales	2,117	1,210	5	-	-	808	4,140	6,401	10,541
Segment revenue	69,851	27,623	56,306	-	-	311	154,091	6,805	160,896
<b>Underlying EBITDA<sup>2</sup></b>	<b>(11,823)</b>	<b>5,500</b>	<b>(7,280)</b>	<b>556</b>	<b>3,822</b>	<b>(115)</b>	<b>(9,340)</b>	<b>1,809</b>	<b>(7,531)</b>
Depreciation and amortisation	(13,395)	(1,546)	(775)	-	-	74	(15,642)	(804)	(16,446)
Loss on disposal of assets (sale of shares in subsidiary)	-	-	-	-	-	-	-	(8,467)	(8,467)
Impairment	(19,920)	-	-	-	-	-	(19,920)	(21,467)	(41,387)
Income tax credit/(expense)	(832)	(578)	29	-	-	305	(1,076)	-	(1,076)
<b>Total assets<sup>3</sup></b>	<b>48,773</b>	<b>29,554</b>	<b>34,055</b>	<b>7,666</b>	<b>6,210</b>	<b>2,127</b>	<b>128,385</b>	<b>-</b>	<b>128,385</b>
Investment in associates	-	-	-	7,666	-	-	7,666	-	7,666
Investment in joint venture	-	-	-	-	6,210	-	6,210	-	6,210
Additions of property, plant, equipment and intangibles	1,625	1,546	2,526	-	-	-	5,697	223	5,920
<b>Total liabilities<sup>3</sup></b>	<b>30,627</b>	<b>11,203</b>	<b>9,174</b>	<b>-</b>	<b>-</b>	<b>(1,586)</b>	<b>49,418</b>	<b>-</b>	<b>49,418</b>

<sup>1</sup> Includes investments in subsidiaries: Rakon Financial Services Ltd, Rakon UK Holdings Ltd, Rakon Europe Ltd and Rakon Investment HK Ltd and Rakon HK Ltd.

<sup>2</sup> Includes one off restructure costs in NZ (March 2014: \$443,000), in UK (March 2014: £1,522,000), and in France (September 2013: €2,300,000). See also note 7.

<sup>3</sup> The measure of assets and liabilities has been disclosed for each reportable segment as it is regularly provided to the chief operating decision maker and excludes intercompany payable balances eliminated on consolidation.

<sup>4</sup> Includes 85.4% investment in ECEC Rakon Crystal (Chengdu) Co. Ltd (ERC) prior to sale in September 2013, and impact of 80% sale of equity interest and write-down of balance of investment to nil in March 2013.

<sup>5</sup> Includes Rakon Ltd's 49% share of investment in Centum Rakon India Private Ltd.

<sup>6</sup> Includes Rakon Ltd's 40% share of investment in Shenzhen Timemaker Crystal Technology Co. Ltd, Chengdu Timemaker Crystal Technology Co. Ltd and Shenzhen Taixaing Wafer Co. Ltd.

A reconciliation of underlying EBITDA to net loss for the period is provided as follows:

Unaudited six months ended 30 September 2014	Continuing operations (\$000s)	Discontinued operations (\$000s)	Total (\$000s)
Underlying EBITDA	4,265	-	4,265
Depreciation and amortisation	(4,755)	-	(4,755)
Employee share schemes	(6)	-	(6)
Finance costs – net	(531)	-	(531)
Adjustment for associates and joint venture share of interest, tax & depreciation	(1,748)	-	(1,748)
Other non-cash items	(314)	-	(314)
<b>Loss before income tax</b>	<b>(3,089)</b>	<b>-</b>	<b>(3,089)</b>
Income tax/(expense)	(279)	-	(279)
<b>Net loss for the period</b>	<b>(3,368)</b>	<b>-</b>	<b>(3,368)</b>

Unaudited six months ended 30 September 2013	Continuing operations	Discontinued operations	Total
	(\$000s)	(\$000s)	(\$000s)
Underlying EBITDA	(6,727)	2,018	(4,709)
Depreciation and amortisation	(4,150)	(942)	(5,092)
Impairment	(3,875)	(25,136)	(29,011)
Employee share schemes	(20)	-	(20)
Finance costs – net	(983)	(241)	(1,224)
Adjustment for associates and joint venture share of interest, tax & depreciation	(1,552)	-	(1,552)
Non controlling interest	(3,557)	-	(3,557)
Other non-cash items	(70)	-	(70)
<b>Loss before income tax</b>	<b>(20,934)</b>	<b>(24,301)</b>	<b>(45,235)</b>
Income tax/(expense)	(447)	-	(447)
<b>Net loss for the period</b>	<b>(21,381)</b>	<b>(24,301)</b>	<b>(45,682)</b>

Audited year ended 31 March 2014	Continuing operations	Discontinued operations	Total
	(\$000s)	(\$000s)	(\$000s)
Underlying EBITDA	(9,340)	1,809	(7,531)
Depreciation and amortisation	(15,642)	(804)	(16,446)
Impairment	(19,920)	(21,467)	(41,387)
Loss on disposal of assets (sale of shares in subsidiary)	-	(8,467)	(8,467)
Employee share schemes	(20)	-	(20)
Finance costs – net	(1,717)	2	(1,715)
Adjustment for associates and joint venture share of interest, tax & depreciation	(2,787)	-	(2,787)
Non controlling interest	-	(4,370)	(4,370)
<b>Loss before income tax</b>	<b>(49,426)</b>	<b>(33,297)</b>	<b>(82,723)</b>
Income tax/(expense)	(1,076)	-	(1,076)
<b>Net loss for the year</b>	<b>(50,502)</b>	<b>(33,297)</b>	<b>(83,799)</b>

#### 4 Operating expenses

	Unaudited six months ended 30 September 2014	Unaudited six months ended 30 September 2013	Audited year ended 31 March 2014
	(\$000s)	(\$000s)	(\$000s)
<b>Operating expense by function:</b>			
Selling and marketing costs	5,193	6,052	10,697
Research and development	6,156	7,421	13,567
General and administration	12,824	19,471	35,968
	24,173	32,944	60,232
Discontinued operations	-	1,835	869
	<b>24,173</b>	<b>31,109</b>	<b>59,363</b>

## 5 Other gains/(losses) – net

	Unaudited six months ended 30 September 2014 (\$000s)	Unaudited six months ended 30 September 2013 (\$000s)	Audited year ended 31 March 2014 (\$000s)
Gain/(loss) on disposal of property, plant, equipment and intangibles:	80	75	388
	80	75	388
<b>Foreign exchange (losses)/gains – net</b>			
Forward foreign exchange contracts – held for trading	214	176	-
Gain/(loss) on revaluation of foreign denominated monetary assets and liabilities	1,331	(399)	(423)
	1,545	(223)	(423)
	1,625	(148)	(35)
Discontinued operations	-	9	1,867
	<b>1,625</b>	<b>(157)</b>	<b>(1,902)</b>

## 6 Borrowings

	Unaudited as at 30 September 2014 (\$000s)	Unaudited as at 30 September 2013 (\$000s)	Audited as at 31 March 2014 (\$000s)
<b>Current</b>			
Obligations under finance lease	196	92	42
Bank overdrafts	3,728	1,127	4,411
Bank borrowings	11,808	36,906	-
<b>Current</b>	<b>15,732</b>	<b>38,125</b>	<b>4,453</b>
<b>Non-current</b>			
Obligations under finance lease	46	167	275
Bank borrowings	-	-	10,857
<b>Non-current</b>	<b>46</b>	<b>167</b>	<b>11,132</b>

### Bank borrowings

During the period Rakon increased its borrowing facility from \$12,000,000 to \$22,000,000. The planned sale of properties in France and the UK will be used to repay bank borrowings where required. The facility expires in May 2015 and the Directors anticipate renewing the facility on similar terms and conditions as part of the annual review of bank facilities before year end. Net cash flows from operating activities for the period to 30 September 2014 include restructuring costs (note 7). Cash flow forecasts are expected to be positive during the second half of the year.

The facility has a covenant of shareholders funds to total tangible assets and requires bank approval for distributions (including dividends). Bank overdrafts and borrowings are secured by first mortgage over all the undertakings of Rakon Ltd and any other wholly owned present and future subsidiaries.

## 7 Provisions for other liabilities and charges

	Unaudited as at 30 September 2014 (\$000s)	Unaudited as at 30 September 2013 (\$000s)	Audited as at 31 March 2014 (\$000s)
Current portion	6,108	202	202
Non-current portion	1,825	2,412	2,412
<b>Opening balance</b>	<b>7,933</b>	<b>2,614</b>	<b>2,614</b>
Charged/(credited) to the income statement:			
–additional provisions	604	203	333
–restructuring costs	-	3,757	7,184
–unused amount reversed	(271)	(60)	(751)
Used during the year	(3,672)	(96)	(1,447)
<b>At period end</b>	<b>4,594</b>	<b>6,418</b>	<b>7,933</b>
<b>Represented by</b>			
Current portion	2,450	3,854	6,108
Non-current portion	2,145	2,564	1,825
	<b>4,594</b>	<b>6,418</b>	<b>7,933</b>

### Restructure provision

#### *Planned relocation of Lincoln manufacturing plant*

On 16 January 2014 a proposal was announced to relocate the manufacturing of products from the Lincoln UK manufacturing plant to New Zealand. Following a collective consultation with Rakon UK Ltd employee representatives, the Directors announced on 5 March 2014 their confirmed decision to close the Lincoln UK plant. At September 2014 the provision balance was £492,000 (September 2013: nil, March 2014: £1,522,000) and related to the remaining employees who were expected to cease their employment by 30 November 2014.

#### *France restructure*

The implementation of the restructure plans communicated to the employees of Rakon France SAS on 27 September 2013 continued as expected during the period with a remaining provision of €730,000 at September 2014 (September 2013 €2,300,000, March 2014 €1,568,000). The last phase of the restructure plan is expected to be completed by June 2015.

## 8 Share capital

Rakon employee share option scheme (2014)

In July 2014 Rakon established an employee share option scheme with 4,800,000 options issued to selected employees. Each option granted will convert to one ordinary share on exercise. A participant may exercise half of his or her options any time after the first anniversary and second anniversaries subject to the weighted average share price on the 10 days preceding the date of exercise exceeding a benchmark share price. Options lapse on their third anniversary.

	Option Price*	2015 Number of Options
Opening balance	-	-
Granted	0.25	4,800,000
<b>Balance outstanding</b>	<b>0.25</b>	<b>4,800,000</b>

\*weighted average

Share options outstanding at the end of the period have the following expiry date and exercise prices:

	Exercise price	Benchmark price	2015 Number of Options
Year ended 31 March 2018	0.25	0.30	2,400,000
Year ended 31 March 2019	0.25	0.30	2,400,000

The weighted average fair value of options granted during the period of \$0.046 per option was determined using the Black-Scholes valuation model. The significant inputs into the model were weighted average share price of \$0.25 at the grant date, exercise price shown above, volatility of 32%, dividend yield of 0%, an average expected option life of 2 years, and an annual risk-free interest rate of 4.0%. The volatility was measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices from the 12 months preceding July 2014.

There have been no allocations since September 2014.

## 9 Contingencies

It is not anticipated than any material liabilities will arise from contingent liabilities.

## 10 Subsequent events

There have been no subsequent events after 30 September 2014.



## Other Information

### A. Dividends (NZX Listing Rules Appendix 1: 2.3(d))

From the completion of the year ending 31 March 2015, Rakon intends to begin paying a dividend of up to 50% of the after tax profit, if considered fiscally appropriate.

### B. Net Tangible Assets per Security (NZX Listing Rules Appendix 1: 2.3(f))

	30 September 2014	30 September 2013
Net tangible assets \$000	65,711	91,370
Number of ordinary securities 000	191,039	191,039
Net tangible asset backing per ordinary security \$	0.34	0.48

### C. Control gained and lost over Entities (NZX Listing Rules Appendix 1: 2.3(g))

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: 2.3(h))

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

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

The contribution of Centum Rakon to Rakon Limited's net results from ordinary activities is a net profit after tax of \$1,717,000 (30 September 2013: \$1,325,000). The contribution of Shenzhen Timemaker, Chengdu Timemaker and Shenzhen Taixiang to Rakon Limited's net results from ordinary activities is a net profit after tax of \$53,000 (30 September 2013: \$40,000).

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

The financial statements are unaudited.

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

During the period the company implemented a previously announced plan to close its Lincoln, UK manufacturing plant. The plant has been closed effective October 2014, subsequent to the half year end period. As the plan to close the plant had been confirmed and announced in the previous financial year (FY2014), all restructure costs associated with the closure were reported in FY2014.

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