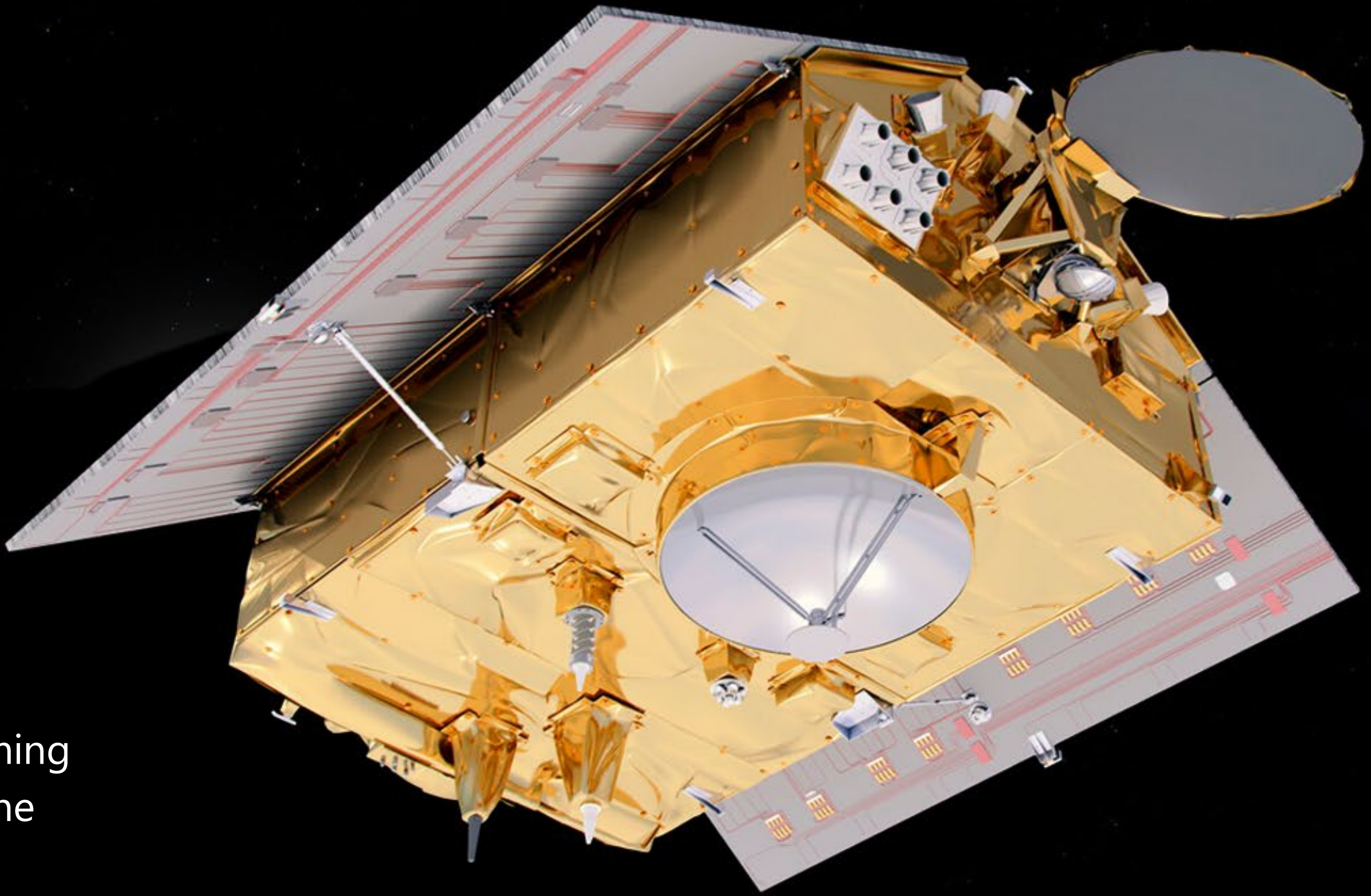
rakon

Annual Report 2022

Enabling the connected future

Leading the way

We are a world leader in precision timing and frequency control solutions for the most challenging specifications and environments.



Rakon has three products in the Copernicus Low Earth Orbit (LEO) satellite Sentinel-6 Michael Freilich ('Sentinel-6') which undertakes the ongoing measurement of sea-surface height from space. Our world-leading USO[1] is part of an instrument which gives extremely precise orbit determination to the satellite.
Image courtesy of the *European Space Agency (ESA).*

[1]Product acronyms and definitions are explained in the Glossary on page 47.

Solving difficult problems

By working closely with our customers and industry partners, we solve difficult problems and enable next generation technology to become a reality.

Rakon New Zealand team members in a product strategy meeting

Continuing to raise the bar

We enable communications infrastructure and applications to perform at ever-greater levels of speed, reliability and capacity, making things that were only ever dreamed of possible.

An example of how Virtual Reality (VR) and metaverse applications may enable remote medical diagnostics and surgery. 5G is enabling these applications to become a reality and Rakon is providing the precise timing that enables 5G to operate.

About this report

Welcome to our 2022 Annual Report.
This document reports on operational and financial performance for the year to 31 March 2022 (FY22). We have focused on what we believe matters most to our stakeholders and business.

This report provides a clear look at our company, and shows how we are delivering against our strategic priorities of technology innovation, core markets, customer partnerships and flexible, scalable operations to enable the connected future.

We know that our investors prefer to view this report online. Our company review and financial documents are included in this report, in an easy-to-read format.

Taking Environmental, Social and Governance (ESG) action is important to us. While we have been doing so for many years, this year we began the process of reporting against an audited ESG framework. Pages 31 to 46 show our current journey.

We have endeavoured to ensure all information is accurate, including performing internal verification. The information provided in this report has been compiled in line with NZX Listing Rules and recommendations for investor reporting.

The financial statements on pages 49–90 have been prepared in accordance with appropriate accounting standards and have been independently audited by PricewaterhouseCoopers.

We welcome your feedback on this report, including how we can improve. If you would like to let us know any comments or suggestions please email us at: **investors@rakon.com**

Please note: All amounts in this document are in NZ$ unless otherwise specified. Product acronyms and definitions are explained in the Glossary on page 47.

Contents

Performance snapshot

12 months ended 31 March 2022

Revenue

$172.0m

▲ $43.7m +34%

Underlying EBITDA[2]

$54.4m

▲ $30.9m +132%

Operating cash flow

$30.2m

▲ 10.2m +51%

Net Profit After Tax (NPAT)

$33.1m

▲ $23.5m +244%

Net cash (including borrowings)

$23.2m

▲ $18.2m +361%

All figures are presented in New Zealand dollars unless otherwise indicated.
All comparisons are to the prior corresponding period (i.e. 12 months to 31 March 2021) unless otherwise stated.

[2] Refer to the footnote on page 47 for the definition of Underlying EBITDA as a non-GAAP financial measure, referred to in this document.
[3] XMEMS® – Crystal Micro-Electro-Mechanical System. Refer to the definition on page 47.

Highlights

+10%
Core revenue growth
(non chip-shortage related revenue)
driven by 5G networks and industrial and precision positioning.

XMEMS®[3]
nanotechnology-based products
disruptive new technology delivering industry-leading performance.

$13.1m
investment in R&D
developing proprietary new technologies and products.

+60%
output increase
by value in our NZ manufacturing operation.

>90% at work
across our global manufacturing operations through Covid-19 peaks.

Chair & CEO report

Lorraine Witten Chair / Sinan Altug CEO

'While FY22 delivered a stellar performance, this was the outcome of many years hard work to lay strong foundations and to position the company for future growth.'


Lorraine Witten (Chair), Sinan Altug (CEO)

We are pleased to report a record performance for Rakon in a year of tremendous challenges and opportunities.

The 12-month period to 31 March 2022 (FY22), has been Rakon's best year ever. The company's growth momentum has continued to build, driven by strong underlying demand in our core markets and supported by new opportunities stemming from worldwide TCXO chip shortages. Importantly, this growth was delivered through the challenges of Delta and Omicron, materials shortages and global supply chain disruptions.

During the year, we have adapted and scaled up our operations to capture the additional chip shortage demand, worked closely with our partners to develop new technologies and carefully managed our supply and delivery risks. This performance is a credit to our thousand-strong worldwide Rakon team, in particular their determination and commitment to meet our delivery goals, and in operating safely through Covid-19.

Financial overview

Total revenue for the financial year rose 34% to $172.0 million compared with $128.3 million for the year to 31 March 2021 (FY21). Gross margin improvements, combined with largely unchanged overheads, resulted in underlying EBITDA[4] of $54.4 million, 132% ahead of last year's $23.5 million. Net Profit After Tax (NPAT) increased by 244% to $33.1 million from $9.6 million for the same period last year.

Revenue growth was driven by strong demand in 5G telecommunications networks, and industrial and precision positioning applications, in addition to the new business opportunities created by worldwide chip shortages. Rakon's core (i.e. non chip-shortage related) revenue grew 10%, contributing 82% of the total revenue. By market this was: Telecommunications $86 million (up 12%); Space & Defence $26 million (down 13%); Positioning $27 million (up 94%) and IoT, emerging and other $32 million (up 363%). Further market revenue information is provided on pages 16–19.

Gross profit was $90.1 million, 53% higher than last year's $58.9 million. Gross margin percentage improved to 52.4% against last year's 45.9%, reflecting a shift in the product mix towards higher margin products over the year.

Operating expenses for the year remained stable at $49.3 million. While we have had increases in labour costs and some other operating expenses, the overall costs were offset by factors such as reduced travel.

Operating cash flow for the period was $30.2 million, 51% ahead of last year. Cash was invested in growth-related capital projects, increased research and development (R&D) expenditure to support new technology development, and manufacturing equipment to capture growth. We have also deliberately increased our inventory levels to help mitigate against ongoing supply chain risks.

Rakon's balance sheet continues to strengthen, with total assets increasing by 29% to $200 million, and equity lifting by 30% since March 2021. The company remained net cash-positive, with $23.2 million in net cash at balance date, against last year's $5.0 million.

We will continue to maintain a conservative balance sheet as we prepare to invest in growth opportunities that are critical to Rakon's future, while remaining cognisant of ongoing risk around global supply chain, inflation, geopolitical risks, and Covid-19.

[4] Refer to the footnote on page 47 for the definition of Underlying EBITDA as a non-GAAP financial measure, referred to in this document.

Chair & CEO report

Progress against our strategy

Rakon's strategy is to drive the advancement of precision timing and frequency control solutions in our core markets and to ensure long product lifecycles through operational and manufacturing excellence, and enduring customer relationships. During FY22 we sought to better articulate this through reframing our value creation model, which is shown on page 14. This model identifies the key priority areas (or strategic pillars) critical to the creation of long-term value for Rakon, and progress against each of these pillars is reported on pages 16-22 of this report.

During the year we refreshed our three year strategy, detailing our plan to increase our market share in telecommunications infrastructure, space & defence in particular the emerging Low Earth Orbit satellite (LEO) market and precision positioning including autonomous vehicles.

Equally important to our markets are the strong foundations required for our business – our values-driven & innovative culture; solid financial management; sound disciplines in managing risk and capturing new opportunities; and an enduring commitment to looking after each other, the planet and future generations. Progress against each of these areas is provided respectively in the people, financial and Environment, Social and Governance (ESG) sections of this report.

Dividend

Recognising that Rakon's previous dividend policy (in place since 2006) was no longer fit for purpose, the Board introduced a new policy in May 2022.

The policy articulates Rakon's aspirations as a growth company, and our intentions to maintain a conservative balance sheet to ensure opportunities can be captured while risks are managed. Specifically, the company intends to prioritise the use of cash surpluses towards capital investment, acquiring skills and R&D projects that deliver our strategic growth objectives.

At the 2021 Annual Shareholders' Meeting (ASM), shareholders were advised they may expect a dividend if the forecast results for FY22 are achieved and there is no significant capital requirement on the horizon. Whilst the guidance of that time was well exceeded, the board has reviewed Rakon's capital requirements in light of the new three year strategic plan and rapid growth environment, and concluded that the cash surplus should be fully invested to support the company's growth and capital expenditure requirements. This includes the purchase of land and construction of Rakon India's new 9,755m^2 facility, continued investment in XMEMS®, NewSpace[5] and the design of next generation proprietary chips.

Covid-19 management

Rakon's global operations continued with limited disruptions throughout FY22, despite being subject to country outbreaks, lockdowns and remote working requirements brought about by the pandemic. Stringent health and safety measures were maintained at all locations and whilst our employees were not always able to escape community infection, we were largely able to avoid workplace outbreaks. Employee feedback shows that our team members have felt well-supported through the year.

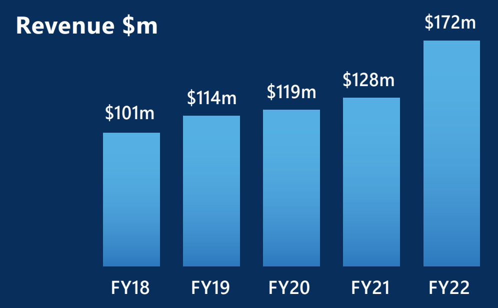
Governance

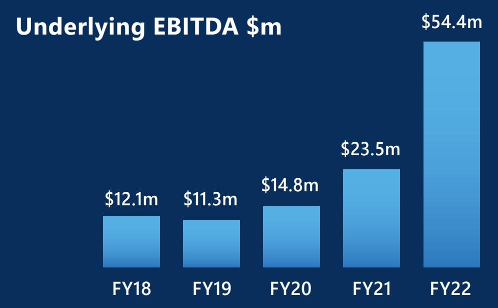
There were changes around the Board table as succession planning was implemented during the year. Steve Tucker and Sinead Horgan were welcomed as new directors, bringing a range of industry, technical and commercial expertise to the Board. Both are standing for election at our ASM in August.

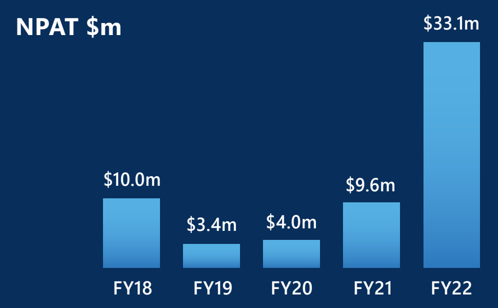
Upon the completion of the Board succession, Bruce Irvine retired April 2022, after 16 years as a director, including the past three and a half years as Chair. Bruce's experience and leadership in steering the company through significant challenges and onto its more recent growth path cannot be underestimated. We thank Bruce for his guidance and wise counsel and wish him well for the future.

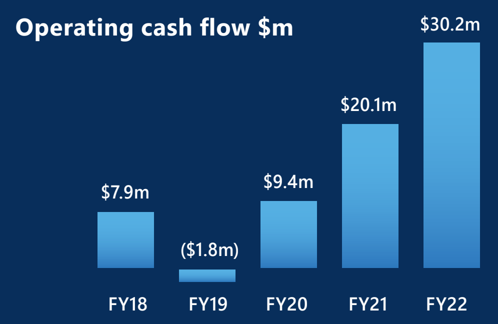
We also extend a very special thanks to Brent Robinson who stepped down on 31 March 2022 from his Managing Director role after 36 years. Brent has been the driving force behind Rakon's technology innovation and, in recent years, led the company through its strategic repositioning

[5] NewSpace refers to a globally emerging private/commercial spaceflight industry. This includes aerospace companies and ventures working to develop faster, better and cheaper access to space and space technologies. It includes Low Earth Orbit satellites.









Chair & CEO report

‘The company’s outstanding performance demonstrates the capability and resilience of our people, and their commitment to our company.’

Multi-chamber temperature test ovens designed in-house at Rakon NZ

and into the strong growth position it now enjoys. We are delighted that the company has retained Brent’s expertise, both as Chief Technology Officer and as an executive director.

Careful transition planning over a long period has ensured a seamless handover to our new Chair and Chief Executive Officer, and we were well prepared to hit the ground running in our new roles from 1 April 2022. We acknowledge the support of the wider Board and Executive teams through this period and look forward to working together to lead Rakon in coming years.

During the year the Board has continued to monitor and reassess the risks and opportunities facing the business as we navigated the challenges of rapid growth, supply chain disruption and Covid-19. We remain confident that Rakon is well placed to capture its core market growth opportunities and believe that the successful management of these various risks over the past year reflects positively on our operational agility and robustness.

Beyond our core business, we will continue to scan and assess potential value-accretive opportunities on the horizon which are aligned with our strategy and will either enhance, or be supported by, our competitive advantage and capability.

Summary and outlook

We acknowledge and thank Rakon’s global team for its tremendous efforts throughout the year. The company’s outstanding performance demonstrates the agility, capability and resilience of our people, and their commitment to our company.

While FY22 delivered a stellar performance, this was the outcome of many years hard work to lay strong foundations and strategically position the company for future growth opportunities. We have now completed our strategic pivot away from consumer high volume/low value markets. The challenges of Covid-19 have accelerated technological change, and these have in turn, highlighted the competitive advantages of our operating agility, technology innovation and strong customer relationships.

Forward orders are strong for FY23[6], driven primarily by continued core market growth. The ongoing impacts of Covid-19, supply chain disruptions and materials shortages will continue to be managed closely.

In FY23 we are making thoughtful and deliberate investments in people, products and capability where we see future growth opportunities. This investment aligns to our three year plan.

We will continue to build delivery capacity in New Zealand and India, and we look forward to the completion of Rakon India’s new Bengaluru facility in late FY23. The new operation will provide significantly enhanced manufacturing capability as well as increased capacity, allowing products to be transferred from other plants to be produced at lower unit costs and extending their lifecycles as they mature. This will become another vital competitive advantage for Rakon.

We are excited about the opportunities beyond FY23 and we are building the foundations to capture these markets. The roll-out of 5G is expected to continue for a number of years and will evolve as datacentres enter the ecosystem. The demand for industrial and automotive positioning applications is continuing to rise, whilst the aeronautical sector is expected to return to growth. The exciting NewSpace market continues to develop with increasing entrants into Low Earth Orbit (LEO) satellites, along with the whole ecosystem surrounding it.

These opportunities, together with a strong development pipeline, multiple new proprietary chips in the works and new XMEMS® nanotechnology manufacturing provide a very positive outlook for Rakon.

Lorraine Witten Chair

Sinan Altug CEO

[6] FY23 refers to the year to 31 March 2023.

Changing of the guard

Sinan Altug CEO / Brent Robinson CTO

In April, Dr Sinan Altug became Rakon's Chief Executive Officer, in a long-planned transition from Brent Robinson, who has led the family-founded company for more than 35 years. Brent will continue leading Rakon's technology arm in the capacity of Chief Technology Officer, overseeing the development of cutting-edge solutions.

Sinan and Brent share their thoughts on the changing of the guard and what the future holds . . .

This is an interesting leadership transition – tell us how it came about.

Brent: We've been working on a succession plan for a number of years, and during that time it became apparent that Sinan, with his leadership attributes, global industry expertise and connections was the natural person to lead Rakon through the next stage of its evolution.

We have repositioned the business in the past few years, and with it now on a firm growth track, we decided it was the right time to pass the mantle. As Chief Operating Officer, Sinan was already leading the execution of the company's growth strategy and expansion programme globally, so it was a natural next step for him.

Sinan: It's the best of both worlds really. While it was time for Brent to take a step back from running the whole company, he still has an unmatched passion and energy to spearhead Rakon's technological direction. Brent's ability to envision, develop and commercialise new technologies has been at the heart of Rakon's success in recent years and I'm delighted that he will continue to steer this area for us.

It is a rare, yet privileged circumstance to have a very smooth transition in leadership such as this one. Brent, Darren and I have had the fortuitous opportunity to work cohesively together across the business over my 20 years at Rakon.

Does a change in leadership mean a new direction for Rakon?

Sinan: No. Our current strategy is bold and transformational; it has been developed over a number of years and we all own it together. We will, of course, continue to review and refresh it dynamically. As the CEO, my focus is on allocating our capital and resources to ensure we're in the best possible position to achieve our goals, capture our opportunities and manage our risks.

Having Brent focus his energy on technology will catalyse the execution of our strategy by increasing our speed in getting leading-edge technology into products and the hands of our customers as quickly as possible.

Brent: As our direction of travel under our strategy is very positive – core markets with significant growth opportunities – we'll stay focused on

Brent Robinson (CTO), Sinan Altug (CEO)

maintaining product leadership and delivering consistently good solutions. We don't see this fundamentally changing.

What is the key to Rakon's future success?

Brent: I believe our vast industry knowledge has always been a great strength and will remain so. We started by producing channel crystals for radio telephones for boats and commercial vehicles, and have developed our expertise as communications have become more complex and sophisticated. We are now a recognised industry leader in high-performance frequency control and timing solutions in our core markets.

Working closely with our customers is key. As the demand grows for connectivity at ever-greater levels of speed and reliability, our goal is to continue to be the 'go-to' partner in developing solutions for our customers. We're currently working with customers on next-generation technologies that most people won't get to use for many years. Our industry has long horizons.

Sinan: At Rakon I have always been proud of the ingenuity and passion of our people and their 'can-do' attitude. This has allowed us to create many industry-first products and has been key in maintaining our leadership in the market segments we choose to play in.

In recent years we've made great strides in our global manufacturing and delivery capability – both in-house and through partnerships, giving us flexibility to scale up for the growth opportunities.

With technological advances in areas like cloud computing, the metaverse, 6G and the NewSpace sector exponentially increasing the demand for connectivity, the future looks very exciting for us.

About Rakon

We help make the world tick

Connectivity is like the nervous system of technology – without it you can't do much. Our products are critical to enabling connectivity between people, networks and machines and are at the heart of hundreds of applications around the world.

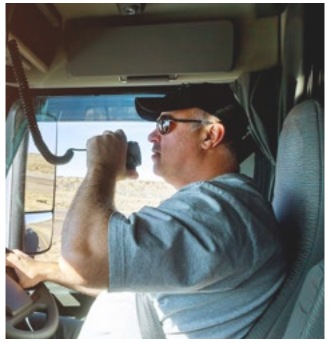
As technology gets smarter it needs to be supported by connectivity that is faster, more precise and more stable. That's where Rakon comes in. Our products are relied on to provide the accurate, stable frequency and timing reference to deliver this.

For more information on Rakon's products and solutions, please visit: **www.rakon.com**
Product definitions and acronyms are explained on page 47.

Pioneering innovation for 50+ years

Our culture of innovation underpins Rakon's proud record of continuous improvement and history of industry 'firsts'. Rakon has continually developed product solutions that help enable the next wave of technology.

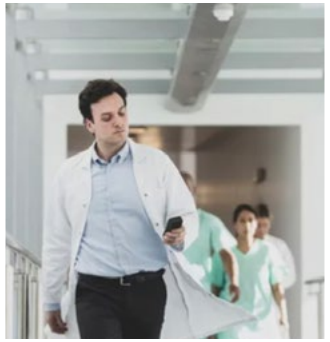
HC-48 crystal



1960s

SSB radio

UM-1 crystal



1970s

Pagers

TXO4080

1980s

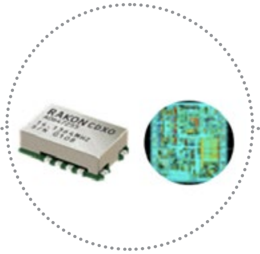
Cellular phones

VTXO500 / USO

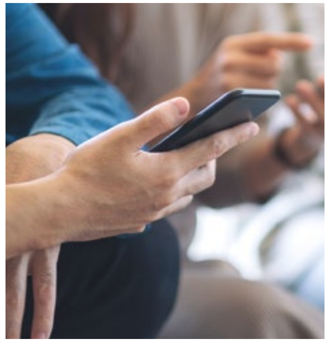
1990s

GPS navigation

Precision satellite positioning



CDXO / RXT / ASIC



2000s

Internet boom

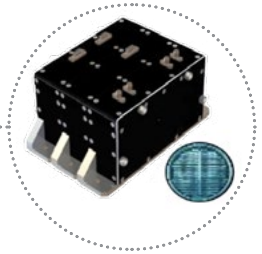
Smartphones

TCXO / OCXO

2010s

3G | 4G | 5G networks

Internet of Things



Space equipment
XMEMS® nanotechnology

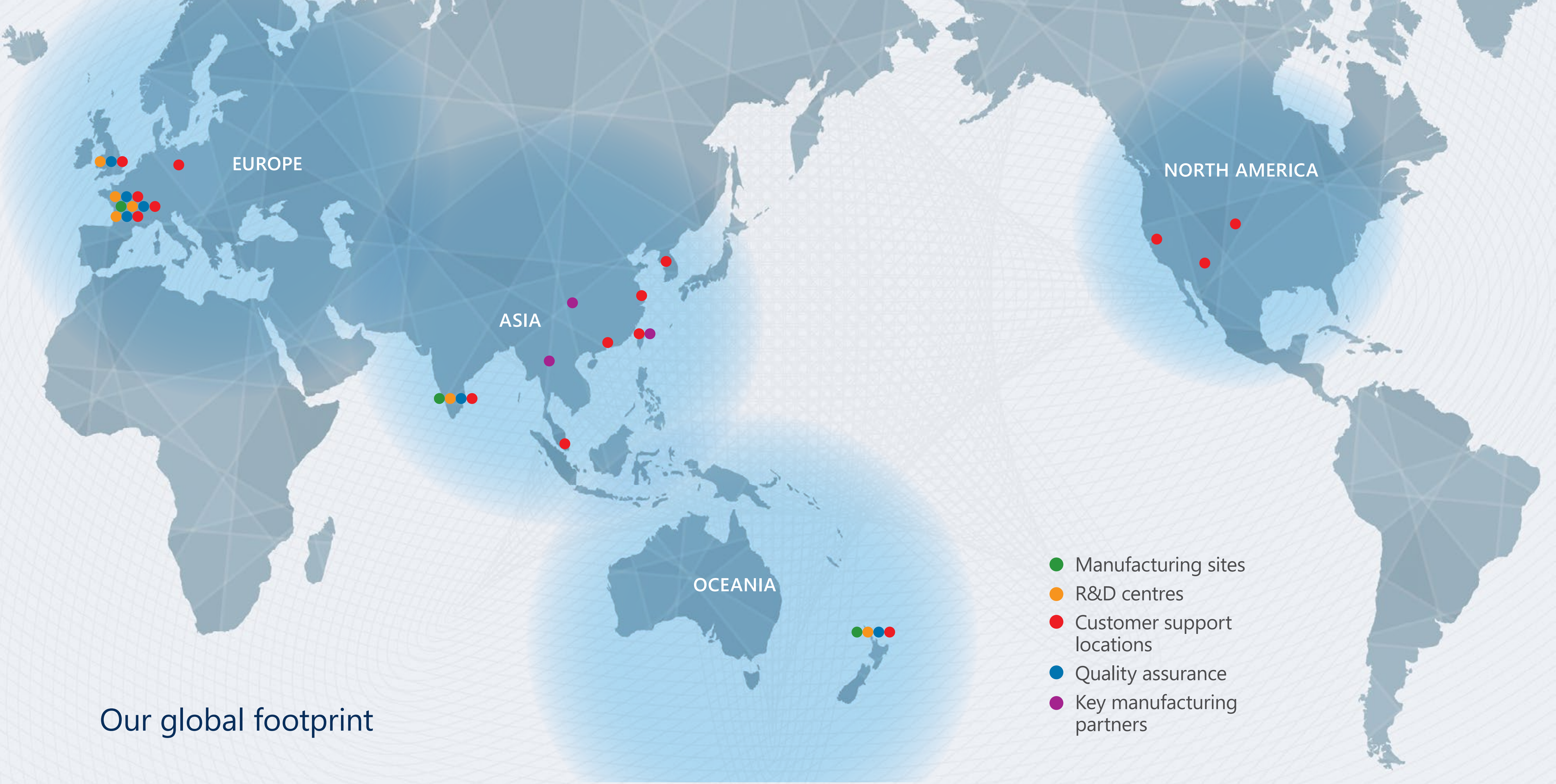
2020s

6G

Cloud computing infrastructure

NewSpace

For more information on Rakon's products and solutions please visit: www.rakon.com



Our global footprint

70
countries with Rakon customers

6
company and partner manufacturing sites

6
R&D centres of excellence

15
customer support locations

~1000
full-time equivalent employees worldwide

40+
nationalities in the Rakon family

How we create value

We drive the advancement of precision timing and frequency control solutions in our core markets, and ensure long product lifecycles through operational excellence and enduring customer relationships.

INPUTS

- Talented and skilled workforce
- Global manufacturing platform
- Intellectual capital and trusted brand
- Financial resources and capability
- Partnerships and relationships

OUTPUTS

- Growth of our people
- Advancement of technology
- Life-changing applications
- Increased shareholder value
- Improved delivery

A values-driven culture

Focuses on how we capture opportunities, manage risk and look after each other, our planet and future generations.

SOLID FOUNDATIONS

Getting around our Annual Report

Our value creation model underpins everything we do at Rakon.

Our priority areas (or strategic pillars) are critical to the creation of long-term value for the business.

As you continue reading, you will see that our performance reporting correlates to this model, showing how we are progressing against our strategic priorities.

Delivering against our strategy

Our four strategic pillars – technology innovation, core markets, customer partnerships and flexible, scalable operations – drive what we do at Rakon.

They underpin our planning, activities and how we measure performance. They are critical to the creation of long-term value, while providing the flexibility to explore emerging opportunities and thrive.

Meeting of the Rakon Board and Executive Team

Core markets

Telecommunications

Our telecommunications products enable data to be transmitted across networks at ever-increasing levels of speed and reliability, with market growth being led by the unrelenting advancement of telecommunications and cloud computing equipment and infrastructure. 5G adoption is now well underway and has many more years to run.

Revenue growth was driven by the continued rollout of 5G networks, increased demand in 4G network components and an uplift in market share with key Tier 1[7] customers. The average gross margin percentage grew to 44% from last year's 40%, due to a higher specification product mix.

While growth momentum remained strong, delivery was constrained by component shortages and capacity limitations, particularly in India. This has resulted in a strong order book for FY23, with further measures under way to improve the manufacturing capacity and pace of delivery in both New Zealand and India.

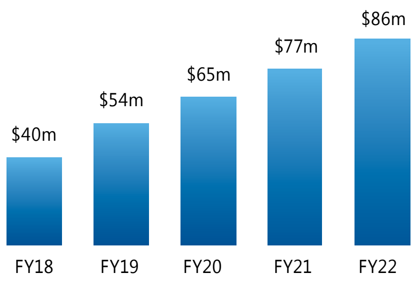
Rakon's telecommunications product leadership is demonstrated by a high rate of inclusion in network equipment reference designs. Being 'designed-in' to major reference designs means there will be a stable demand for product, over the life of the design being used.

We experienced a substantial uptake of new products over the year, particularly OCXO, TCXO and VCXO products that are used in semiconductor reference designs for 5G radio heads and small cells. The coming year will see the release of new next generation Application Specific Integrated Circuit (ASIC) based oscillators for 5G mmWave products, designed to enable even greater levels of speed, reliability, stability and resilience.

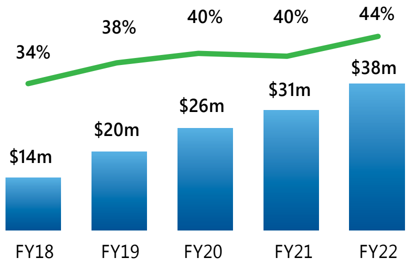
We were also pleased to enter three new strategic partnerships with important players in 5G and O-RAN[8] networks. We are continuing to work globally with key datacentre customers as the evolution of new 5G open network ecosystems continues.

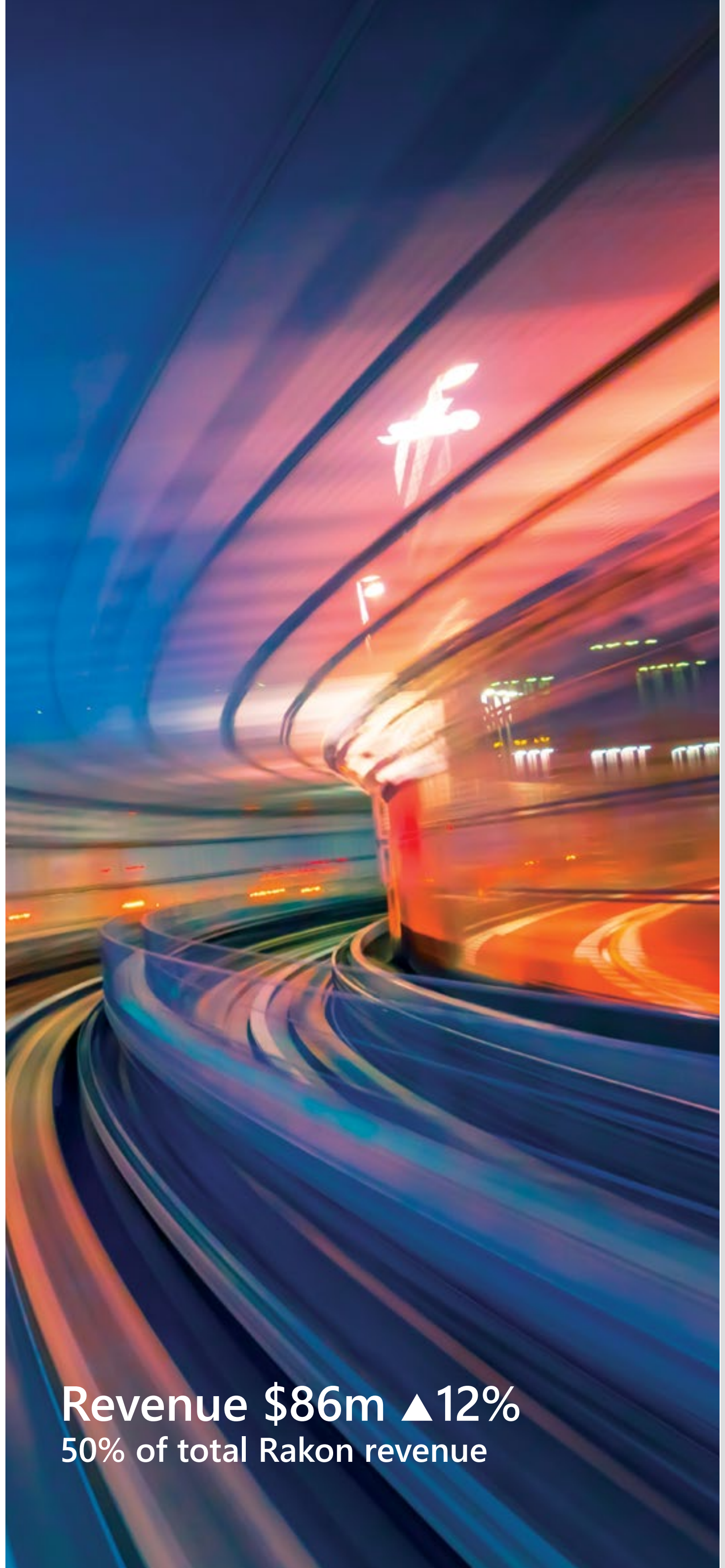
Rakon products:
OCXOs, TCXOs, VCXOs, XOs and Crystals

Revenue



Gross margin





[7] Refers to recognised key players within their respective industries and which make up a significant market share.
[8] O-RAN – mobile networks that are more intelligent, open, virtualised and fully interoperable.

Space & defence

Our space and defence products enable connectivity in the most extreme environments and to the most demanding performance specifications for applications such as satellites, ground stations, radar, aviation, communications and positioning systems. We work with government agencies and commercial programmes in key markets to develop next generation solutions.

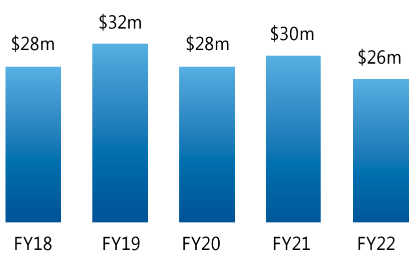
After a steady first half, second half revenue was impacted by reduced US government investment in the country's defence programme and a subsequent decrease in product demand. Defence represents around 60% of this segment, and 9% of Rakon's total revenue. The gross margin percentage remained relatively consistent.

With a strong level of space product orders, our focus remains on delivery, building and strengthening relationships in the NewSpace ecosystem and participating in new mega Low Earth Orbit (LEO) satellite constellation contract bids. Good progress is being made in NewSpace, where Rakon is working with a number of partners including the Centre national d'etudes spatiales (CNES), to develop subsystems and modules for LEO satellites. We announced a new suite of LEO satellite products in the second half of the year, and now offer the broadest range of frequency generation, communication and positioning products in the sector. Initial market interest has been pleasing.

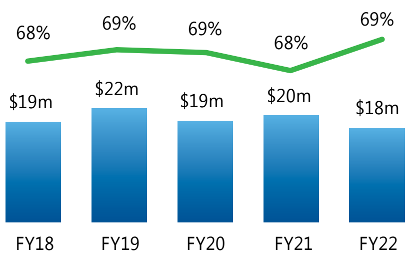
We will continue to closely monitor defence sector developments with our US and European partners, working within Rakon's Trade Compliance Policy and all export controls.

Rakon products:
System Solutions, OCSOs, USOs, VCSOs, VCOs, OCXOs, TCXOs, VCXOs, XOs, Crystal Filters and Crystals

Revenue



Gross margin



Positioning

Our positioning products enable the highest levels of precision and accuracy in applications such as aircraft and marine navigation; automotive positioning; autonomous agriculture and mining; and emergency locator beacons.

Rakon's very strong FY22 revenue performance was driven by a combination of market growth in our target segments, and the successful capture of opportunities stemming from global TCXO chip shortages. A significantly improved mix of higher margin products resulted in the average gross margin increasing from 48% to 56%.

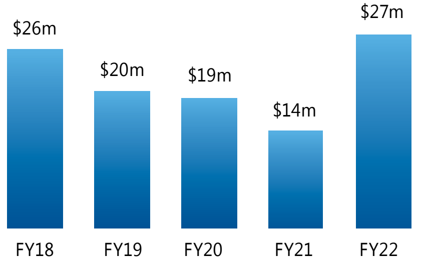
We are seeing demonstrable benefits from our strategic pivot to industrial and precision applications such as autonomous agricultural, mining and industrial machinery. Revenue for this core segment showed a significant uplift, both due to strong market growth and increased share of customer spend. The emergency locator beacon segment experienced growth as recreational activities resumed after Covid-19 lockdowns.

The TCXO shortage opportunities have enabled Rakon to build new customer relationships and develop some longer-term business. Orders stemming from this shortage will continue to be fulfilled through FY23.

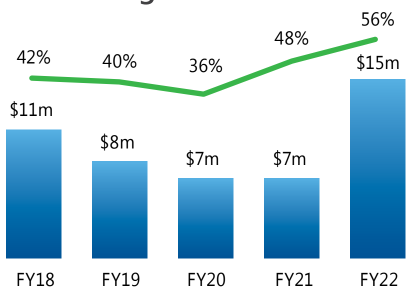
We will remain focused on building and strengthening customer relationships and capturing opportunities as the industrial, emergency locator beacons, agricultural and mining segments continue to grow. Forward orders are strong. In the automotive segment, electric and autonomous vehicle growth is expected to continue putting pressure on component supply, and the need for higher performance and higher reliability frequency control products is expected to grow as autonomous vehicle industry standards evolve.

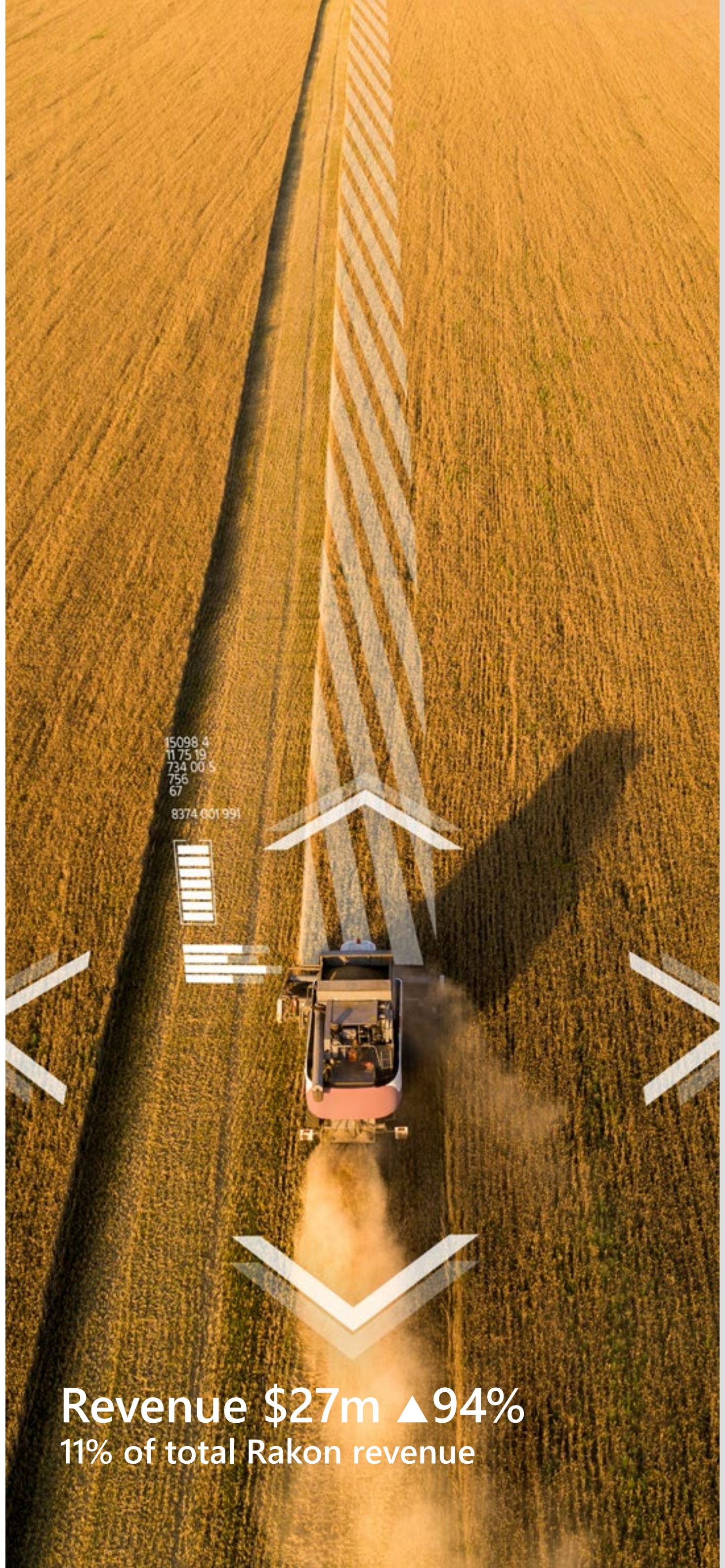
Rakon products:
OCXOs, TCXOs, VCXOs, XOs and Crystals

Revenue



Gross margin





Revenue $32m ▲363%
19% of total Rakon revenue

IoT, emerging and other

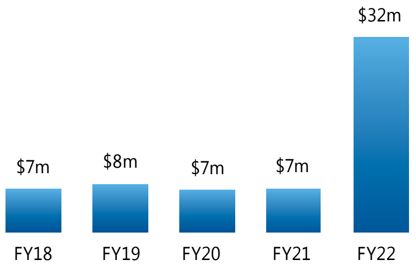
With a more than 50-year track record in innovation, we continue to work with partners in delivering solutions for cutting edge applications such as wireless control, test and measurement, the Internet of Things (IoT), Machine-to-Machine (M2M), smart grids and metering, as well as other emerging markets.

Extraordinary revenue growth was achieved during the year, arising from orders secured due to the global TCXO chip shortages for consumer IoT devices. This opportunity was captured due to Rakon's ability to design a solution and quickly scale up for production, with manufacturing commencing three months after securing the order.

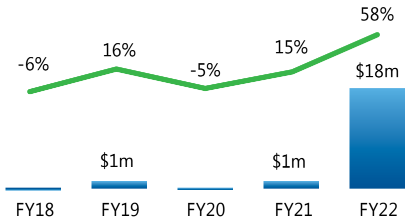
Eighty percent of the TCXO order was delivered by the end of FY22, with the remaining 20% to be delivered in the first half of FY23.

Rakon products:
OCXOs, TCXOs, VCXOs, XOs and Crystals

Revenue



Gross margin



Technology innovation

For more than 50 years, our culture of innovation has underpinned Rakon's proud record of continuous improvement and history of industry 'firsts'. Our portfolio of patented products and technologies provides a competitive moat against commoditisation as well as delivering long product lifecycles and revenue streams. We work in multi-year timeframes to develop the next generation of technologies.

Rakon invested $13.1 million in research and development during the year, focused primarily on three key areas: development of new ASIC-based products; the new XMEMS® core nanotechnology; and a new suite of NewSpace products.

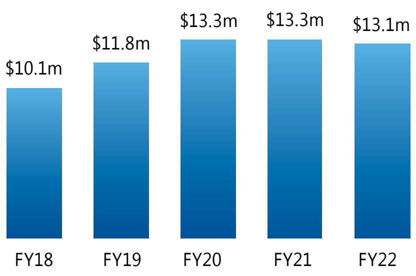
Several milestones were achieved in FY22. A first half highlight was the development and delivery of new TCXO products as described on page 19. We were also pleased to achieve the successful design-in and adoption of new OCXO, TCXO and VCXO products in 5G millimetre wave radio heads and small cells (see page 16); and a new miniature Mercury OCXO, which has been adopted by two Tier 1 customers.

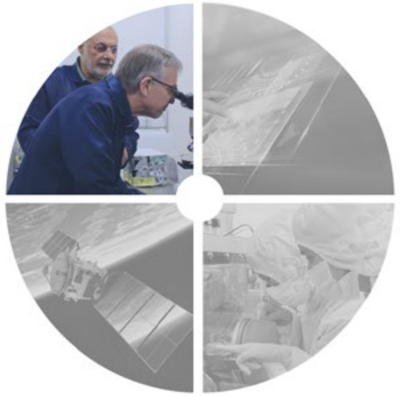
The recently-announced new suite of LEO satellite products allows Rakon to offer the largest product range in its category in the evolving NewSpace ecosystem. Development and testing of these products, in partnership with the Centre national d'etudes spatiales (CNES) and key research organisations, will continue over FY23 with the first subsystem module scheduled to go into space during the first half.

Rakon's new semiconductor chips, which will underpin the next generation of products, went into market testing during the year, and are receiving strong market interest.

Pleasing progress was made in the development of Rakon's XMEMS® nanotechnology which will provide a technology core for future products. Samples have delivered very encouraging testing results and the company remains on track to launch multiple XMEMS®-based product families in the coming year.

R&D investment
(including capital expenditure)





R&D engineers at Rakon UK's ASIC design facility

We have developed enduring relationships with major customers, international agencies and industry standards organisations

Customer partnerships

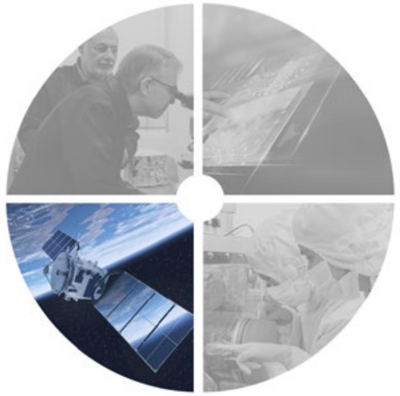
As an approved supplier to the majority of Tier 1 companies in our core markets, Rakon has developed long and enduring relationships with major customers, international agencies and industry standards organisations. These partnerships are critical to our continued advancement of industry-leading technologies.

Over the past year, we have worked closely with a number of partners on product development opportunities. In the second half, an ultra-low noise VCXO developed in partnership with a major customer, was designed-into a major chipset in the reference design for 5G mmWave radio units. In NewSpace, we are working with a North American partner to adapt our master reference oscillator for LEO satellites.

As the new 5G open network (O-RAN and C-RAN[9]) ecosystem evolves with the increasing role of datacentres, we are continuing to strengthen relationships and build new partnerships with major players in this sector.

Our long-term customer partnerships assisted us in navigating through a challenging supply chain environment through the year. Through our multi-sourcing strategy and strong relationships, we have been able to work successfully with suppliers and customers to ensure delivery.

In the coming year, work with customers will continue in the development of next-generation technologies, including semiconductor chipset reference designs; next level OCXO technologies for 5G; and further NewSpace opportunities.



[9] C-RAN – a cellular network architecture that utilises cloud computing capabilities to provide a more disaggregated network; i.e. a network where the processing of the data may be broken up into smaller units.

Flexible, scalable operations

Our global manufacturing strategy focuses on building scale and flexibility at our three sites, lengthening product lifecycles through lean manufacturing options, mitigating supply chain risk through multiple sourcing and further developing our partnerships with original equipment manufacturers.

Rakon's continued improvement in operating capability and resilience has underpinned our strong FY22 performance. The proactive management and mitigation of worldwide supply chain and Covid-19 issues has enabled a strong manufacturing performance.

During the year, our New Zealand operation successfully achieved a major capacity expansion to enable the fulfilment of new orders. Average monthly revenue over the year was 60% higher than FY21, delivering record gross margins.

Rakon India's output was consistent with last year, with the business demonstrating exceptional resilience through the impacts of Delta, Omicron and significant materials shortages. During FY22, Rakon India has been developing the capability to undertake part of the production process for Mercury+ OCXO products. This top-selling product, is currently only manufactured in New Zealand.

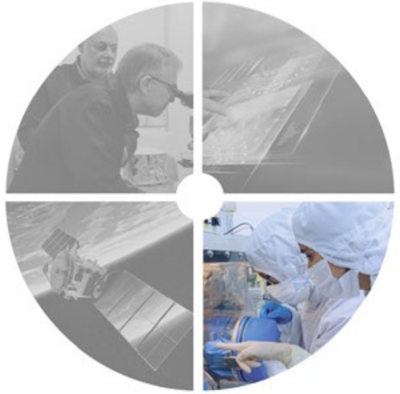
Production in India is expected to commence in FY23. This important achievement marks a major milestone in Rakon's dual-sourcing strategy.

Rakon France likewise matched its previous year's manufacturing performance despite the challenges of Delta, Omicron, materials shortages and remote working.

Materials supply has remained extremely tight across the globe, with extended lead times, price increases and market consolidation. We are continuing to work hard to overcome uncertainties around manufacturing capacity and the procurement of materials and parts. Like others in our industry, we are also experiencing increasing pressure from skills shortages and cost inflation.

Projects to increase delivery capacity are under way in both New Zealand and India, with planned investment in building, plant and equipment. The New Zealand operation will continue to expand its XMEMS® nanotechnology capacity over the coming year. In India, construction has commenced on Rakon India's new manufacturing facility in Bengaluru (see page 23). The new operation will, when complete, significantly enhance Rakon's manufacturing capability.

This facility will enable us to significantly increase our OCXO production capacity and will be one of the world's largest and most sophisticated manufacturing sites for frequency control products.



Rakon process engineers at one of our cleanroom facilities

Future-proofing Rakon India

Construction is well underway for Rakon India's new, world-class manufacturing facility in the aerospace technology hub in Bengaluru, Karnataka. The new facility will be an integrated centre of manufacturing excellence, future-proofing our Indian operations and replacing two existing leased Bengaluru sites which the business has outgrown.

In its new location in the prime aerospace park, Rakon India will be amongst the world's leading aerospace companies. The new operation will cover 9,755m2 (105,000 square feet), not only making it 150% larger than the existing sites but also providing further potential to scale up as we grow. The integrated nature of the facility will enable lean manufacturing efficiencies, including time and cost reduction, reduced material movement between sites, lower inventories and an integrated utility plan.

The new R&D and manufacturing centre of excellence will enhance Rakon's design and manufacturing capability, enabling new product lines to be manufactured. This will accommodate future growth in Rakon's core markets. Importantly, it will also grow Rakon's presence within India's aerospace sector through the 'Make in India' programme.

The high quality, economical operating platform (including a technologically advanced cleanroom) will allow significantly greater volumes of products to be produced and product lifecycles to be extended as they mature. For example, part of the production of Mercury+ OCXO product range is planned to commence in FY23, reducing product costs and ensuring greater longevity. This approach both supports Rakon's multiple source manufacturing strategy and lowers supply risk.

The new facility is planned for completion in 2023, with a comprehensive plan already in place to enable continuity of supply to customers through the transition. The facility will enable us to significantly increase our OCXO production capacity and is expected to be one of the world's largest and most sophisticated manufacturing sites for frequency control products.

Architectural concept of completed facility

Our people

Rakon's people are our key strength. We value the choice they have made to work with us. We attract high-calibre talent, invest in their development and create a safe and inclusive environment, focussed on empowering our people to do their best work while looking after their well-being.

Culture & values

At Rakon, our aim is to provide an environment where our people are encouraged to be their authentic self and are able to contribute meaningfully to Rakon's goals.

Our culture is built on family values. Our employees are committed to, and share our passion around the advancements in the frequency control environment. At their core our people share Rakon's adventurous spirit and our strong drive to deliver our customers the next innovative solution. We work hard to ensure our people are aligned to our purpose and vision, and that their behaviours are guided in line with our values of passion, respect, courage, perseverance and integrity.

The strong engagement of Rakon's team members is reflected in our internal surveys where employees name product, quality, technology, culture and employee welfare as the key things they rate most highly about Rakon.

Rakon India team

Our values

Passion

We're driven by our energy and excitement to create solutions and new possibilities.

Respect

We treat others as we expect to be treated; we listen, value diverse perspectives and take nothing for granted.

Courage

We're proactive and challenge the status quo with a 'can do' approach.

Perseverance

We've the determination to have another go and achieve the best outcome as a team.

Integrity

We're honest, transparent and strive to do the right thing by each other and the planet.

Our people

~1000
total global workforce

32% female employees

68% male employees

153
people have worked for us for 20+ years

5%
voluntary turnover of our salaried staff

99.5%
of our worldwide workforce are double vaccinated against Covid-19

7
lost time injuries

Diversity & inclusion

A true multinational organisation, Rakon's workforce is spread across 10 countries and represent 43 different nationalities. We inherently recognise the importance of diversity and inclusion in achieving our business objectives, fulfilling the needs of our customers and creating a high-performing, values-driven culture.

Our diversity policy outlines our commitment to a diverse and inclusive working environment globally. We ensure that the unique strengths and characteristics of our employees are recognised, and strive to provide an atmosphere where all employees feel free to bring their whole selves to work. Our global talent acquisition and management programmes, along with our succession management processes ensure our ability to attract, develop and retain high calibre candidates and employees who are aligned to our culture and values.

Our global team has a varied range of skills, values, backgrounds, ethnicities and experiences. This ensures that our workforce reflects the diverse range of customers we have and the communities in which we operate.

Learning & development

As a technology pioneer for more than 50 years, Rakon has always strived to develop and promote from within and provide meaningful career opportunities for its employees. This is particularly important in the current highly competitive skills environment.

Developing leadership is a continuous focus for Rakon across all levels of people leadership. We ensure that our people leaders are developed through a number of different programmes, including in-house leadership programmes delivered around the globe. During the pandemic we have continued these programmes to ensure 51 people leaders globally had the ability to continue on their leadership journey.

Every year our global business actively recruits graduates, with engineering graduates often starting with us via an internship. This allows new graduates to sample different parts of the business, eventually working in an area most suited to their capabilities. In India, we partner with technical institutes across the different states to ensure we have a varied range of skills, backgrounds and experiences joining our team.

We offer professional development across our business and continue to expand in this area. Through our graduate programme, we support our people where appropriate to continue their educational qualifications, from bachelors' degrees through to PhDs and other qualifications. So far, 26 current employees have achieved qualifications through this programme, whether it be an apprenticeship, diploma, bachelors' degrees, masters or PhD qualification.

Our people

Health, safety and well-being

Rakon is committed to health, safety and wellness. Established practices promote a safe and healthy working environment globally to ensure all our employees keep safe each day. While each location is compliant with local health and safety legislation, our areas of focus remain Covid-19, education & training and safety improvement opportunities.

Over the year, seven Lost Time Incidents (LTIs) were recorded (compared to five in FY21) and 47 incidents were recorded (compared to 35 in FY21). These higher numbers can be attributed to a higher number of hours worked over the year and greater education around reporting. Critical risk improvement reviews were conducted, with improvement initiatives being implemented.

Employee well-being

The well-being and mental health of our employees has always been a focus for Rakon. We continue to review and implement new initiatives designed to promote and improve employee well-being where appropriate, so that our people can perform at their best within our business, their families and community.
These include:

- Flexible working, including a move globally to hybrid working where employees can perform some of their roles from home. At our manufacturing operations, employees are able to request shift adjustments to accommodate personal circumstances
- Access for employees to Rakon's outsourced Employee Assistance Programme (EAP) or similar counselling services
- Access to online seminars on well-being, stress management, boosting mental health and personal wellness
- Additional special leave to accommodate effects of Covid-19 on employees and families
- Regular check-ins from managers to their team members, and where appropriate, employee surveys focused on how our people are doing.

Rakon supply chain employee at work in our Inward Goods and Dispatch area

Rakon production team leader at our cleanroom facilities

Our people

Covid-19

Rakon's global operations experienced minimal personnel disruption driven by Covid-19 throughout FY22 despite being subject to country outbreaks and lockdowns brought about by the pandemic.

The ability of our people to remain agile and pivot when necessary to new ways of working to accommodate the pandemic meant our manufacturing plants were able to continue with limited disruptions.

Stringent health and safety measures were maintained at all locations and hybrid or remote working was implemented where appropriate. Whilst our employees had freedom of choice around vaccinations (provided by Rakon where applicable), we were pleased to achieve high double vaccination rates around the world, including 100% uptake in India and 99% in New Zealand and elsewhere.

As a manufacturer of essential products, it was critical to maintain manufacturing operations wherever possible. A range of measures were introduced to minimise the risk of site outbreaks, including reconfiguring shifts to longer hours per day, but less days per week. Employees continued to be educated and resourced to implement strict hygiene standards and were monitored daily for wellness.

Unfortunately, our employees were not always able to escape community infection, however, our flexible shift management and flexible working arrangements, combined with stringent health & safety measures, including daily rapid antigen testing where appropriate, ensured we were largely able to avoid workplace outbreaks. It is to the credit of our employees that our operational output across our manufacturing sites either met or exceeded their manufacturing targets, and that at the peak of Covid-19 outbreaks we had less than 10% of employees off isolating.

In our employee surveys, feedback shows that our team members have felt well-supported through the year, with employee welfare being named in the top three things Rakon does well.

Our board

Board of Directors with a strong mix of global experience and technology expertise

Lorraine Witten

Independent Director
BMS (Hons); CFInstD; FCA

Appointed 2017

Lorraine is a professional director with extensive experience in technology and Information Communications Technology (ICT) sectors, as well as strategy and entrepreneurship.

She is Chair of Move Logistics and a director of Pushpay Holdings, Horizon Energy Group and vWork.

She is a Chartered Fellow of the New Zealand Institute of Directors and a fellow of Chartered Accountants Australia and New Zealand (CAANZ).

Brent Robinson

Executive Director
Hon FIPENZ

Appointed 1991

Brent's 42 years at Rakon includes establishing global operations and markets and almost 36 years as Managing Director/CEO.

Brent is an Honorary Fellow of the Institute of Professional Engineers New Zealand and was awarded the New Zealand Hi-Tech Trust – Flying Kiwi Award in 2011.

Yin Tang (Tony) Tseng

Non-independent Director
Hon Master NTUST

Appointed 2017

Tony is the current Chair of Siward Crystal Technology Co. Limited, a substantial shareholder (12.3%) in Rakon.

He has more than 30 years of experience in the frequency control product industry, having founded Siward in 1988 and grown the company to become one of the industry's global leaders.

Tony is a director of Securitag Assembly Group Limited.

Keith Oliver

Independent Director
BE (Hons)

Appointed 2017

Keith is a professional director and business advisor with an extensive management, governance and investment background in NZ technology companies operating in international markets in Asia, Europe and the Americas.

He is currently the Executive Chair of Blackhawk Tracking Systems, a director and business advisor with Alto Capital and a director of Wellington Drive Technologies and vWork.

Keith Watson

Independent Director
NZCE (Telecom); CMI

Appointed 2018

Keith is a professional director with substantial governance and leadership experience in technology and engineering companies across Asia Pacific, the Americas, Central Europe, UK, Australia and New Zealand.

He is currently Chair of the New Zealand Institute of Economic Research (NZIER) and a director of Acumen Trust, Acumen Republic, Counties Power, ECL Group and Complete 3D.

He is a Chartered Member of the Institute of Directors in New Zealand.

Steve Tucker

Independent Director
BMS; FCA; CMInstD

Appointed October 2021

Steve is a professional director with extensive governance and leadership experience in the technology sector, including Deputy Chief Executive of Gallagher Group.

He is currently Chair of Gallagher Holdings and Goodnature, and a director of HJ Asmuss and Co, Taska Prosthetics, 5th Element and Purpose Capital Impact Fund. He is also Chair of Caprine Innovations NZ.

Steve is a Chartered Member of the Institute of Directors in New Zealand and a Fellow of the Institute of Chartered Accountants.

Sinead Horgan

Independent Director
BComm; MAcc; CMInstD; FCA

Appointed January 2022

Sinead is a business consultant and professional director with significant experience in financial analysis, strategy development, risk management and M&A across Europe, the Americas, Asia, Australia, and New Zealand.

She is a director and Chair of the Audit and Risk Committees of FMG (Farmers Mutual Group), Bank of China (NZ) and EcoCentral. She is also a director or trustee of a number of other private companies and not-for-profit organisations.

She is a Chartered Member of the New Zealand Institute of Directors and a Fellow of the Institute of Chartered Accountants Ireland.

Our executive team

An experienced team with deep industry and functional experience

Dr Sinan Altug

Chief Executive Officer

PhD (EE); MBA; MSc (EE); BSc(EE)

Sinan joined Rakon in 2002 and become CEO in April 2022. Prior to this, he was COO where he led the company's global operations to sustainably and profitably meet increasing customer demand, delivery and quality requirements.

Sinan has previously been Managing Director of Rakon's European businesses based in France, and Global Business Development Director based in the US. Prior to joining Rakon Sinan held various management positions in the frequency control product industry, including Director of European Operations for Champion Technologies.

Brent Robinson

Chief Technology Officer

Hon FIPENZ

Brent has been with Rakon since 1979. As Chief Technology Officer, Brent oversees Rakon's technology development and innovation. He has 42 years' experience in the design and manufacture of crystals and oscillators, and has included leading the development of Rakon's leading products and technologies.

Brent was Managing Director and Chief Executive Officer for almost 36 years, until April 2022. Under Brent's leadership, Rakon has grown into a global company and recognised leader in the frequency control product industry.

Darren Robinson

Chief Marketing Officer

Dip Export Marketing

Darren has led Rakon's sales and marketing function since 1990 and has been instrumental in the company's expansion into new markets, its commercialisation of new applications and its development of business relationships with many Fortune 500 companies.

Through his in-depth understanding of Rakon's markets, Darren also plays an integral role in steering the company's R&D efforts, guiding product development teams to develop solutions and meet new requirements in emerging applications and solving customer problems.

Anand Rambhai

Chief Financial Officer

CA, BCom

Anand joined Rakon in January 2012 and was appointed CFO in November 2018. He brings strong leadership, commercial skills and in-depth business knowledge to the company. As CFO he is responsible for Rakon's finance, information systems and investor relations functions.

Anand's previous experience includes financial and management roles with organisations including Sony, British Telecom and Deloitte. Anand is a member of Chartered Accountants Australia and New Zealand (CAANZ).

Margo Thomas

General Manager
Global People and Capability

BA, PGDip, DipTchg, PGCertC

Margo joined Rakon in January 2016 and is responsible for Rakon's Human Resources (HR) strategy, policies and processes, including organisational alignment, talent acquisition, leadership development, change management, employment relations and health and safety.

Prior to this, Margo was General Manager of People and Capability New Zealand. She has more than 20 years' experience working in HR including senior HR positions in a range of industries with Crowe Horwath, Spark, Westpac and New Zealand Post.

Our executive team

Scott Stemper
Global Quality Manager
BSc (EE)

Scott joined Rakon in January 2015. He leads the development and improvement of quality processes and systems to enhance Rakon’s drive to be the leading provider of world-class frequency control products.

Scott’s background includes ten years as Global Quality Manager with Raltron Electronics Corporation and 20 years with CTS Frequency Controls in oscillator product engineering and quality management roles.

He has also held senior quality management positions with L3 Technologies and D&S Consultants Incorporated.

Scott is a member of the of the American Society for Quality (ASQ).

Dr Roy Cann
Head of Global Engineering
PhD (EE), BSc (Eng Science) 1st class Honours, C.Eng (UK), MIET, DIC

Roy joined Rakon in May 2018 and is responsible for driving new product developments and leveraging the benefits of a collaborative global R&D team.

Prior to joining Rakon, Roy was Electronic Controls Design Manager at Fisher and Paykel Technologies, where he was responsible for the design and supply chain management of high volume microprocessor-based motor controllers across New Zealand and China.

Previous roles include Engineering Director at Trimble, plus other senior roles with multi-site responsibilities, including positions with Avery Weightronix (UK), Rolls-Royce Aerospace (UK), Meissner Power Systems (South Africa), and Connetics (NZ).

Roy is a member of the Institution of Engineering and Technology (MIET).

Maureen Shaddick
Company Secretary
LLB, BA

Maureen joined Rakon in November 2018 and provides legal, company secretarial and regulatory advice and support. She has more than 25 years’ experience as a commercial lawyer and governance adviser in private practice, corporates and not-for-profit organisations in New Zealand, London and Dubai.

Maureen was the General Counsel and Company Secretary of Genesis Energy from 2003 to 2016. She is the Chair of Cancer Research Trust New Zealand and has been a Trustee since 2003. She has also held a number of other not-for-profit governance roles.

Borja Thomas Schuhmacher
Head of Global Product Management
BEng (Elec), BEng (Telecom)

Thomas joined Rakon in April 2015 and is currently responsible for overseeing the profitable and sustainable management of the company’s product offerings. He has more than ten years’ experience in the electronics sector, and former Rakon positions include Head of Product Management New Zealand and Senior Product Line Manager.

Prior to joining Rakon, Thomas was a Product Line Manager for Nexans (formerly Alcatel) in France, leading the launch of two new product lines for the smart grid and electric vehicle markets.

Thomas has also held product consultancy roles in France and began his career as an R&D Engineer in the UK.

Arun Parasnis
Managing Director, Rakon India
BEng (Elects & Comm); CPIM (APICS)
PGDip IB; PGDip Strategy

Arun joined Rakon in October 2018 and is responsible for overseeing all business functions at Rakon India.

He has more than 30 years experience in the electronics industry, overseeing a range of functions including engineering, operations, business development and profit and loss management. His electronics experience includes electronic components, consumer electronics and Electronics Manufacturing Services (EMS).

Prior to joining Rakon, Arun was the Vice President of Cyient. He has also held senior positions at Radiall India, Jabil Circuit India and Vishay Components India (formerly the Philips Electronics Passive Components division).

Environment, social and governance

ESG framework

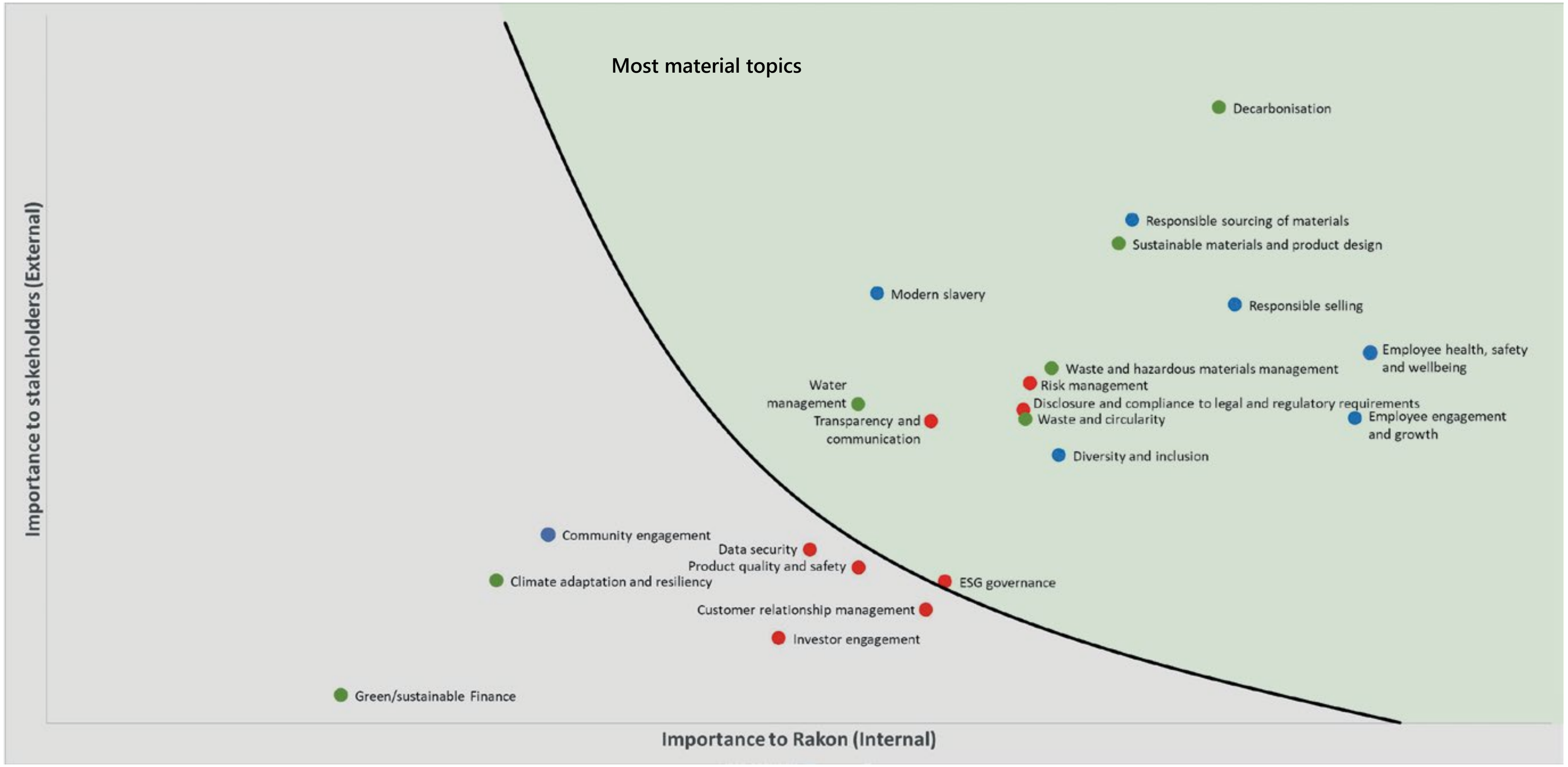
Last year we began our journey to adopt a formal framework for Environmental, Social and Governance (ESG) reporting.
Our first step has been to identify our most material ESG topics, and from this we will create a sustainability strategy and reporting roadmap.

Materiality assessment

Our materiality assessment sought to identify the most important sustainability aspects for Rakon to measure, manage and report on. This assessment entailed a desktop review of internal and external input information, including current trends, peer analysis, media reports and reporting frameworks along with internal policy, procedure and reporting documentation. The assessment also involved stakeholder engagement, including representatives of institutional and other investors, potential investors, senior management and other staff to determine our material ESG topics.

The outputs of this work are illustrated here. The materiality matrix graph summarises the relative importance ratings of each ESG related topic to our external and internal stakeholders and the table of key material issues that follows on page 32 describes the most important ESG topics to Rakon.

Results of materiality assessment



ESG framework

Our key material issues

The table on this page summarises and defines the most material ESG-related topics for Rakon which have been distilled from the initial long list identified during the review and engagement process.

These findings were not a surprise to us and are aligned with where we have been focusing our efforts to improve our sustainability and manage our risks. The following pages 33–35 provide examples of the past year's initiatives to improve our sustainability.

	Topic	Sub-topics	Definition
Environment	Sustainable products	• Sustainable materials and product design • Waste and circularity • Decarbonisation (scope 3)	Minimising the negative impact of our products and embracing innovation to positively impact the environment.
Environment	Sustainable operations	• Waste and hazardous material management • Water management • Decarbonisation (scope 1 and 2) • Climate adaptation and resiliency	Sustainable and efficient use and protection of resources in the operating processes, particularly manufacturing. Adapting to the physical impacts of climate change to maintain a resilient business model.
Social	Ethical supply chain	• Responsible sourcing of materials • Modern slavery • Responsible selling of products	Ethical sourcing of raw materials, especially in relation to conflict minerals, and labour, particularly in partner manufacturing plants outside New Zealand where labour laws are less stringent. Ensuring sales of products that may have a military end use comply with international humanitarian law and trade laws.
Social	An engaged, healthy, diverse and capable workforce	• Employee health, safety and well-being • Employee engagement and growth • Diversity and inclusion	Cultivating a strong, healthy workplace culture that attracts, engages and develops high performing teams that embrace diversity of thought.
Governance	Risk management	• Risk management • Disclosure • Compliance to legal and regulatory requirements	Maintaining robust risk management processes.

ESG framework

In accordance with our ongoing commitment to sustainability, we will build on these material topics to develop a sustainability strategy and reporting roadmap over the next few months.

Our sustainability strategy will detail:

- Rakon's vision for sustainability and how it connects to our broader business strategy
- Rakon's material sustainability topics, as well as descriptions of how they affect, and are affected by, our operations
- Rakon's sustainability goals, objectives and commitments.

Our sustainability strategy will include the following key areas where Rakon has existing initiatives in place:

- Reducing waste to landfill and committing to a waste reduction target
- Reducing greenhouse gas (GHG) emissions and committing to a GHG intensity reduction target
- Improved visibility and management both up and down the supply chain and commitments relating to these
- Maintaining low rates of workplace injury and committing to a target
- Maintaining high levels of employee engagement and committing to a targeted response rate to the employee engagement survey.

Our reporting roadmap will outline key steps towards mature sustainability reporting. Tasks related to filling any climate change (TCFD) disclosure gaps will be prioritised in preparation for mandatory reporting from FY23.

Taskforce on Climate-related Financial Disclosures (TCFD) disclosures

Rakon recognises that by improving transparency and revealing climate-related information within financial markets, our financial decision-making will become more resilient, and climate change risks and other financial risks better managed.

As a first step, we have undertaken a TCFD gap analysis to determine Rakon's current readiness to be able to make disclosures in accordance with the TCFD recommendations by FY23.

Next year's annual report will include our approach to climate-related risks and opportunities: how they affect Rakon, and how Rakon's operations affect climate change. We will also have benchmarked and tracked meaningful metrics against our most material impacts.

Supply chain visibility

Rakon recognises that visibility of labour practices, sources of materials and end use of products are important issues for many of our stakeholders including suppliers, customers, investors, employees and regulators. In addition to addressing these matters in our supplier and broader Business Code of Conduct, Rakon's Trade Compliance Policy requires compliance with trade laws, which typically regulate imports, exports, trade sanctions and boycotts.

Rakon's products are used in a wide range of applications in many different industries and market sectors. With customers in the defence industry, we are particularly focused on ensuring we comply with rules designed to control the export of goods that may have a military end use (including in weapons) in all the countries where we do business.

Rakon's Trade Compliance Policy requires compliance with export controls and restrictions in each of the countries it designs and manufactures products within; including application for export permits or licences. Our Trade Compliance Policy states that we will not sell products which could be used in weapons of mass destruction (or their means of delivery); or in cluster munitions or for terrorist activity. Further, Rakon must undertake customer due diligence when it is aware products may be purchased for a military end use.

Rakon has a comprehensive compliance framework in place including: staff training, business management system protocols and senior management oversight and escalations. Compliance assurance reporting is required by the Board bi-annually.

Improving our environmental footprint

Rakon is ISO14001 certified at our manufacturing facilities in New Zealand and India. This standard sets out the requirements for our Environmental Management System (EMS).

Our EMS strives to deliver continuous environmental improvement and maintain business excellence. Across our facilities we seek to:

- minimise waste, as well as treat it to prevent pollution
- be efficient in the use of energy and natural resources
- create environmentally friendly products and technologies.

We have been reporting to CDP (formerly known as the Carbon Disclosure Project) since 2010. The information we measure and provide across our global operations includes refrigerant use and the consumption of carbon dioxide, electricity, fuel and natural gas.

In New Zealand, our EMS is reviewed on an ongoing basis following the Plan-Do-Check-Act methodology. This includes establishing objectives, implementing processes, monitoring and measuring against environmental policy, targets and legal requirements and then reporting results. Actions are taken to improve the performance of the EMS in a continuous improvement approach, and our staff are invited to provide input into the review process. Our EMS targets are based on the last 2 years of data.

Our New Zealand focus continues to be on reducing waste and pollution, reducing water, electricity and CO2 emissions, and reducing hazardous materials on site. For example an initiative to replace lights with LED panels and sensor lighting is now 90% complete and energy consumption has reduced by 6% over the last 2 years. Water consumption has reduced by 20% based on litre per part produced since 2020.

At Rakon India we obtained our ISO14001 recertification during the year with zero non-compliances. Improvements included reducing consumption of the compounds Acetone and Stycast in production, as well as eliminating the use of the chemical Galden through installing a new machine which is operated by electricity to perform leak testing.

A new initiative is also planned for FY23 in India to put a new solvent recycling machine into production. The recycling process separates the original solvent from waste materials picked up during its use, then recondenses it for reuse. Trials of the new machine are in progress and we have seen 90% of the used solvent being recovered.

In France, through the tremendous efforts of the engineering team, we have been reducing products classed as 'REACH' (Registration, Evaluation, Authorisation and Restriction of Chemical Substance) throughout our manufacturing processes. We have also almost completed the replacement of lights at our sites with LED lighting where possible.

Making positive social contributions

As a global employer, Rakon aims to actively and positively contribute to the communities where it operates. Over the past year we have supported a range of initiatives that improve well-being or assist with education and career prospects.

In India, our Rakon team has donated to Swami Vivekananda Youth Movement (SVYM) and provided palliative care services for 148 patients living with or dying from advanced progressive illness such as cancer, paralysis, kidney failure, cerebral palsy and severe neurological disorders.

We also helped fund an athletics day at a local polytechnic college for electrical engineering students in the Bengaluru area, as well as providing career opportunities for graduates.

In France, we participate in a government initiative to support engineering students by offering intern programmes and financial assistance with their studies. This creates a win-win by creating opportunities for financially disadvantaged students to pursue an engineering career as well as broadening the pool of talent available for high tech companies such as Rakon.

Our Research and Development centre in the United Kingdom, has for the past five years, assisted a charity radio station at the nearby Princess Alexandra hospital through advertising support.

In New Zealand, we support young people studying engineering by providing two scholarships annually to Auckland University's Engineering school.

We have also built connections with a range of New Zealand charities that improve well-being and quality of life with a focus on our tamariki (next generation). Over the past year, we have donated to Radio Lollipop, Koru Care, Special Children's Christmas Party, Kidney Kids NZ, the New Zealand Down Syndrome Association, the Rotary Club of Newmarket, Burn Support Group Charitable Trust, Remuera Lions Club Charitable Trust and the Auckland Rescue Helicopter Trust.

Rakon India is a supporter of SVYM (here and above)

Corporate governance

The Board of Rakon Limited is committed to conducting business in the right way and maintaining the highest standards of corporate behaviour and accountability. The Board regularly reviews Rakon's corporate governance framework and supports best practice reporting.

The Board confirms that in the year to 31 March 2022, the company's corporate governance practices complied with the recommendations in the NZX Corporate Governance Code, 10 December 2020 (NZX Code).

The governance information in this Annual Report is current as at May 2022 and has been approved by the Board.

Rakon is listed on the NZX Main Board and is subject to regulatory control and monitoring by both the NZX and the Financial Markets Authority (FMA).

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:
www.rakon/investors/corporate-governance

Code of ethical behaviour

We are committed to ensuring the highest standards of honesty and integrity are maintained by our Directors, employees, suppliers, contractors and consultants, in all activities conducted by, or in the interests of, Rakon.

Corporate policies, guidelines, procedures and practices address how we support our people, respect communities, act in the interests of our investors, conduct our business and protect the environment. This includes our requirements in relation to health, safety and well-being, and ethical behaviour.

Ethical standards and guiding principles are set out in our *Business Code of Conduct*. The high standards of honesty, integrity and ethical conduct which Directors are required to maintain, are also set out in the *Board Charter* which is regularly reviewed by the Board.

Rakon's Business Code of Conduct sets out expectations of ourselves and our suppliers, of how we operate and do business. It includes respect for, and compliance with, all laws in the countries in which we operate and universally recognised standards for the environment, human rights, labour and ethics.

Rakon has processes in place to ensure all new and existing employees have awareness and understanding of the Business Code of Conduct and other company policies. These include an Employee Handbook which is regularly reviewed and updated and is available on the in-house portal, along with all human resources and governance policies and procedures. Training sessions with managers and team leaders ensure they are well equipped to guide and support their teams. Rakon continues to work on improving its processes for promoting awareness and for receiving assurance of understanding and compliance.

The Business Code of Conduct requires Directors and employees to promptly report material breaches of the Code. Rakon's *Protected Disclosure (whistleblowing) Policy* supports the expectation that employees should report breaches of the Business Code of Conduct and policies, as well as other wrongdoing or suspected wrongdoing. The policy provides a framework and process for safe reporting and is accessible by all employees on the in-house portal.

Rakon's Financial Product Trading Policy addresses the risk of insider trading in Rakon securities by Directors and employees. Additional trading restrictions apply to Restricted Persons as defined in the policy, including Directors and certain employees.

Details of Directors' shareholdings as at 31 March 2022 are set out in the Shareholder Information section on page 98. The policy is also available on the in-house portal and notices about restricted trading periods and reminders about the rules regarding financial product trading and related policies are provided to employees.

Corporate governance

Board composition and performance

The Board is ultimately responsible for Rakon's strategic direction and oversight of Rakon's management, with the aim of increasing shareholder value and ensuring the company's obligations are met.

The Board operates under a written charter which sets out the structure of the Board and the procedures for the nomination, resignation and removal of Directors; and outlines the respective responsibilities and roles of the Directors and management. It also identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that Directors are fully empowered to perform their duties and to fully participate in meetings of the Board.

Rakon's day-to-day management and operation is delegated by the Board to the senior management team under the leadership of the Chief Executive Officer. This delegation and further sub-delegation is subject to financial controls and limitations advised from time to time as set out in detailed Delegated Authorities Schedules.

In discharging their duties, Directors have direct access to, and may rely upon, Rakon's senior management and external advisers.

Directors have the right, with the approval of the Chair or by resolution of the Board, to seek independent legal or financial advice at the company's expense to assist them in the proper performance of their duties.

While the appointment of new Directors is the responsibility of the whole Board, the *People Committee Charter* outlines the Committee's particular duties and responsibilities in relation to the selection and appointment of new Directors and succession planning.

The People Committee is responsible for identifying and recommending candidates for the role of Director, taking into account such factors as it deems appropriate, including tenure, capability, skill sets, experience, diversity, qualifications, judgement and the ability to work with other Directors.

The Board recognises a skills matrix can assist with identifying and assessing existing Directors' skills and competencies as well as new skills and competencies which may be needed to meet Rakon's future governance requirements. The skills and experience the Board has determined are important to Rakon's strategic direction and those collectively held by the current Directors are shown on this page.

The number of elected Directors and the procedure for their appointment, retirement and re-election at annual meetings are set out in Rakon's Constitution and the NZX Listing Rules.

All Directors, including any executive Director must retire by rotation and if eligible, may stand for re-election at the third annual meeting, or three years after their last election, whichever is longer. Any Director appointed since the previous annual meeting must also retire and is eligible for election.

All new Directors enter into a written agreement with the company in the form of a letter of appointment. The letter sets out the key terms and conditions of their appointment. The letter addresses tenure, duties and responsibilities and requirements outlined in relevant legislation, the NZX Listing Rules, Rakon's Constitution and the Board Charter and is supported by general rules and practice.

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:
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Combined board experience

Corporate governance

Information about each of Rakon's Directors is available on the Rakon website and on page 28. The company maintains an interests' register and particulars of the entries made in the interests' register during the year ended 31 March 2022 in relation to Directors' interests are disclosed in the Shareholder Information section on Pages 99–101.

Board meetings and attendance

The Board meets as often as it deems neccessary, including sessions to review the company's performance against agreed plans, and to consider the Rakon's strategic direction and forward-looking business plans. Video and/or phone conferences are used as required including to accommodate the restrictions on face-to-face meetings due to Covid-19.

The table below sets out Directors' attendances at the Board, Audit and Risk Committee and the People Committee meetings during the year ended 31 March 2022. In total, there were 11 Board meetings, five Audit and Risk Committee meetings and five People Committee meetings.

	Board	Audit & Risk Committee	People Committee
Total number of meetings held	11	5	5
Bruce Irvine	11	5	5
Keith Oliver	11	–	5
Brent Robinson	10	5	5
Lorraine Witten	11	5	5
Roger Yao: Observer for Yin Tang Tseng[1]	11	–	–
Keith Watson	11	5	–
Steve Tucker[2]	5	2	
Sinead Horgan[3]	2	1	

[1]Roger Yao is an observer for Director Yin Tang (Tony) Tseng, with the consent of the Board, in June 2017. Tony is the current Chair of Siward Crystal Technology Co. Limited, a substantial shareholder (12.3%) in Rakon and is actively involved in the governance of Rakon.

[2]Steve Tucker was appointed to the Board with effect from 1 October 2021

[3]Sinead Horgan was appointed to the Board with effect from 25 January 2022

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:

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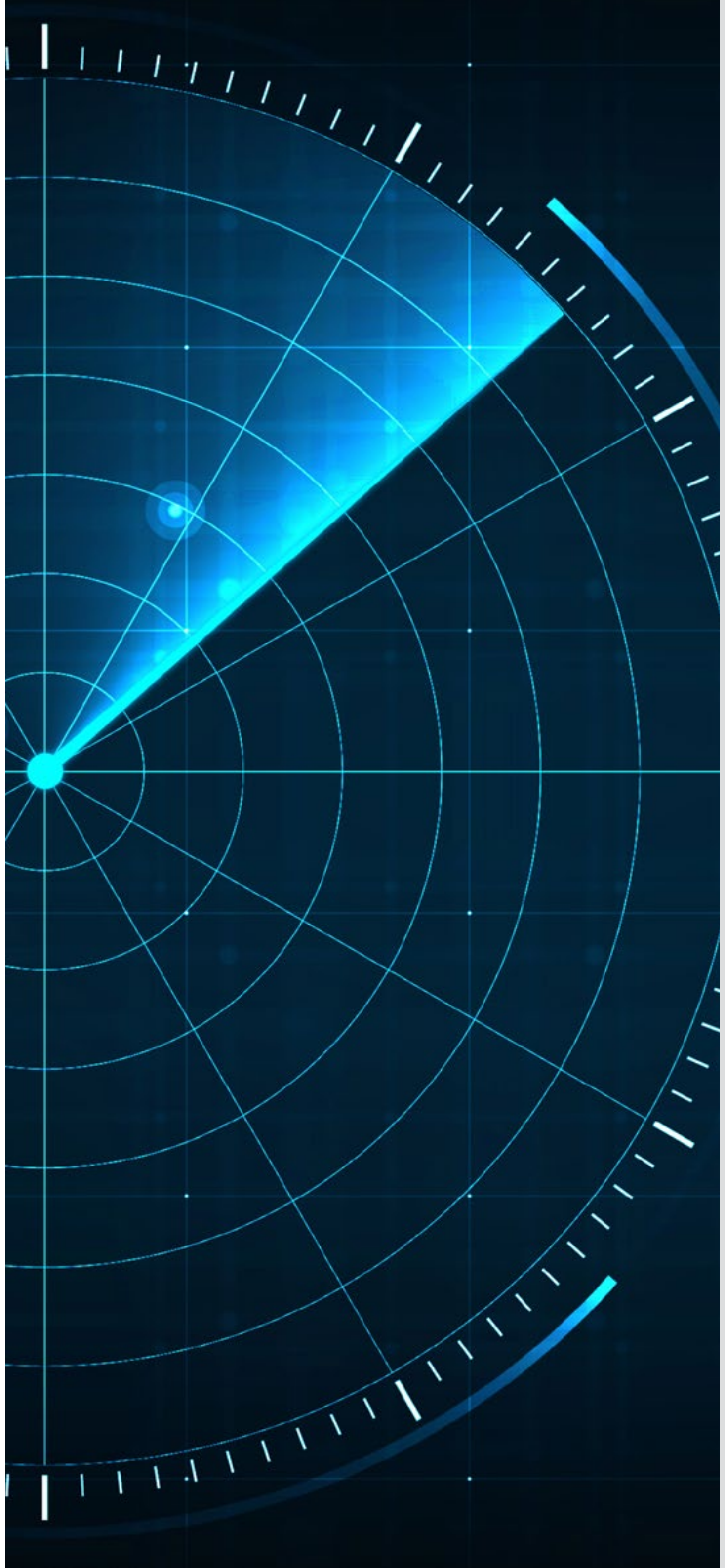

Corporate governance

Diversity

At Rakon we recognise the value of diversity of thinking and skills in our recruitment, management and governance practices, and we seek to create inclusive work environments where all our people are valued and respected. We recognise diversity means one or more of a number of different characteristics and factors, including but not limited to: gender, ethnic background, religion, age, marital status, culture, disability, economic background, education, language, physical appearance and sexual orientation. In building our teams we consider the different backgrounds, communication styles, life-skills and interpersonal skills of Directors and employees to be valuable in creating successful teams.

Rakon's *Diversity and Inclusion Policy* requires Rakon to set objectives for measuring and promoting diversity and inclusion within the company. Progress on these objectives is required to be monitored and assessed by the People Committee and the Board at least annually.

The Board has set two key diversity and inclusion objectives which were continued through FY22, aimed at reflecting the undertakings and intentions of the Diversity and Inclusion Policy in Rakon's planning, recruitment and remuneration practices:

- Ensure succession plans for critical business roles are aligned to Rakon's Diversity and Inclusion Policy and represent the diversity in the Rakon business; and
- Collect and analyse data based on gender with a view to designing and implementing a three-to-five-year plan to achieve gender pay equality.

In setting these objectives, we have recognised that alignment with our Diversity and Inclusion Policy needs to be addressed in the ongoing development of succession plans for critical business roles, and that gender pay equality is a key indicator of a diverse and inclusive organisation. Rakon gender data across all of its global operations is recorded in the People section on page 25.

As at 31 March 2022, women represented 25% (FY21: 16.7%) of Rakon's Directors and 22% (FY21: 22%) of Rakon's Officers (as defined in NZX Listing Rule 3.8.1(c)). A quantitative breakdown of the number of male and female Directors and the number of male and female Officers as at 31 March 2022 and as at 31 March 2021 is set out in the table on this page.

In the table the Chief Technology Officer, who was the Managing Director and Chief Executive Officer, is included as a Director. Officers are the other direct reports of the Chief Executive Officer having key functional responsibilities.

Date of determination	31 March 2022		31 March 2021	
Directors				
Females	2	25%	1	16.7%
Males	6	75%	5	83.3%
Officers				
Females	2	22%	2	22%
Males	7	78%	7	78%

With effect from 1 April 2022 and the resignation of Director and Chair Bruce Irvine, the total number of Directors reduced to seven and accordingly the percentage of Directors who are women is ~29%.

Also, with effect from 1 April 2022, the Managing Director position held by Brent Robinson, ceased and he became Chief Technology Officer while remaining an Executive Director and accordingly, will continue to be counted as a Director for the purposes of the diversity statistics.

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:
www.rakon/investors/corporate-governance

Corporate governance

Director development
All Directors are encouraged to undertake appropriate training and education to build on their governance and directorship skills. Appropriate training and education includes: attending presentations on changes in governance, legal and regulatory frameworks; attending technical and professional development courses; and attending presentations from industry experts and key Rakon advisers. Senior management provide updates to the Board on relevant industry and company issues. A number of Rakon's Directors are chartered members of the New Zealand Institute of Directors.

Board, committee and director evaluation
The Board Charter requires the Board to regularly consider individual and collective performance, together with the skill sets, training and development and succession planning required to govern the business. In FY22 the Board's key focus was succession planning, which took into account previous Director and Board performance evaluation exercises undertaken by the Board as a group, and on a one-on-one basis. The Board engaged to discuss the attributes, skills and experience required from Directors for the good governance of the company and its strategic direction.

The charters of the Board's Committees also require the Committees to undertake a self-review process, including receiving feedback from the Board as a whole and reporting to the Board on the outcome of the reviews. Review and evaluation checklists are used by each Committee for the review and evaluation exercise.

Independence
The Board currently comprises seven Directors: six non-executive Directors, and one executive Director. The executive Director was the Managing Director and Chief Executive Officer until 31 March 2022 and now holds the position of Chief Technology Officer. In order for a Director to be independent, the Board has determined, among other things, they must not be an executive of Rakon and must have no disqualifying relationships. The Board records guidance for determining independence in its Charter and follows the guidelines in the NZX Listing Rules.

By reference to this guidance, the Board considers that as at 1 April 2022, a majority (five) of the Directors are independent of the company, and do not have any interests, positions, associations or relationships which might interfere, or might be seen to interfere, with their ability to bring independent judgement to the issues before the Board. It accordingly confirms: Lorraine Witten (Chair), Keith Oliver, Keith Watson, Steve Tucker and Sinead Horgan are independent; and Brent Robinson and Tony Tseng are not independent.

The Board recognises that from time to time it is appropriate for the Board to confer without executive Directors or other senior management present, and for there to be separate meetings of independent Directors.

The Chair of Rakon is an independent Director. While the Board Charter does not require the chair of the Board to be an independent Director, if the Directors appoint a fellow Director as Chair who is not independent, then they are required to disclose this fact in the company's annual report, along with reasons justifying such a decision. The Rakon Board Charter records the Board's intention that the Chair and the Managing Director or Chief Executive Officer shall not be the same person.

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:
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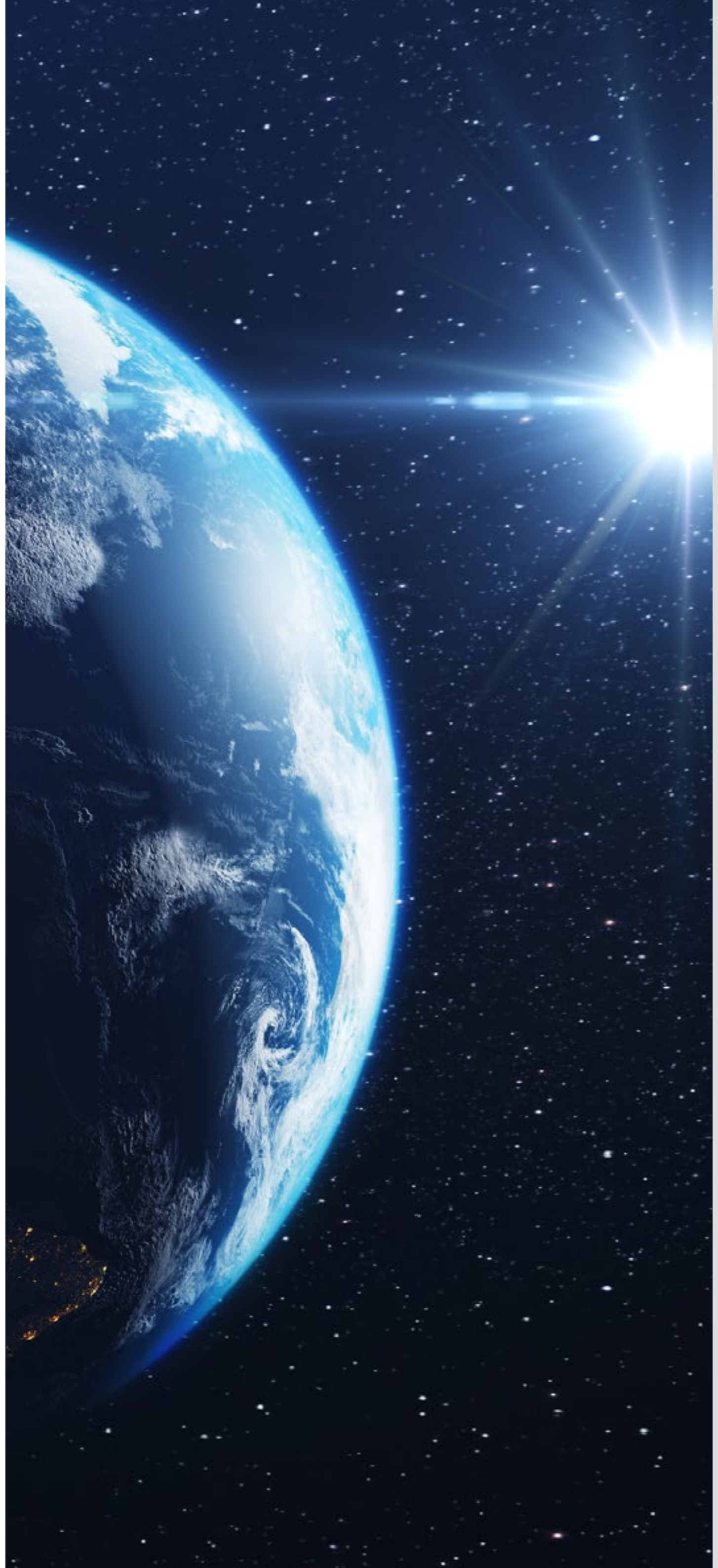


Corporate governance

Committees

The Board has delegated certain activities to committees to assist in the execution of its responsibilities. The current committees of the Board are the Audit and Risk Committee and the People Committee (Committees).

The Committees meet as required and have terms of reference (charters), which are approved and regularly reviewed by the Board, and are available on Rakon's website.

The Committees review and analyse policies and strategies, which are within their terms of reference. They examine reports, information and proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior authorisation from the Board to do so.

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:

www.rakon/investors/corporate-governance

All members of the Board receive the minutes of each Committee meeting and all Directors are entitled to attend any Committee meeting. In pursuing its duties and responsibilities, each Committee is empowered to seek any information it requires from employees and to obtain independent legal or other professional advice. Each Committee is required to report to the Board after each meeting of the Committee.

Audit and Risk Committee	People Committee
Membership	
From 1 April 2022: • Sinead Horgan (Chair) • Lorraine Witten • Steve Tucker	From 1 April 2022: • Keith Oliver (Chair) • Lorraine Witten • Keith Watson
To 31 March 2022: Lorraine Witten (Chair), Bruce Irvine, Keith Watson, Steve Tucker, Sinead Horgan	To 31 March 2022: Keith Oliver (Chair), Bruce Irvine, Lorraine Witten
Purpose	
Ensure oversight of all matters related to Rakon's financial accounting and reporting, monitoring the processes undertaken by external auditors and internal audit activity, operational risk management and compliance with all financial corporate governance requirements. Duties and responsibilities include: • Review of consolidated financial statements • Oversight of compliance with financial reporting rules and accounting policies • Review of performance of the external auditor and their appointment and removal if required • Oversight of the adequacy and effectiveness of internal controls • Review of internal control procedures, risk management framework and operational risk management, including insurance • Regularly meet external auditor without management present.	Assist the Board in establishing coherent human resources, remuneration and Director nomination policies and practices, to support the successful management of Rakon. Duties and responsibilities include: • Review of human resources strategy, organisational structure and management succession planning • Review of employee incentive schemes, remuneration for the Chief Executive, senior management and Directors • Oversight of compliance with human resources and health and safety legislation • Oversight of Director succession planning, selection, appointment and evaluation • Review of induction and training programmes for new and existing Directors.

Corporate governance

The *Audit and Risk Committee's Charter* provides that the Committee must be comprised solely of Directors of Rakon, have a minimum of three members, have a majority of independent Directors and have at least one Director with an accounting or financial background. The Chair of the Audit and Risk Committee is not the Chair of the Board and all three of the current members are independent Directors and have accounting and financial backgrounds.

The People Committee's work plan reflects duties and responsibilities that would otherwise be covered by separate remuneration and nomination committees. This approach is sensible from an administrative and resourcing perspective and facilitates regular oversight of both remuneration and nomination matters through the year. Currently Rakon health and safety matters are the responsibility of the full Board with oversight of legislative compliance and policy by the People Committee.

Management may attend Committee meetings at the invitation of the Committee Chairs.

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:
www.rakon/investors/corporate-governance

Other committees

The Board Charter specifically requires the Board to assess regularly whether there is a need for any further standing committees and the Board acknowledges that any committee established should operate under a written charter. From time to time, special purpose committees may be formed to review and monitor specific projects with senior management.

Takeover response guidance

Rakon has not developed a specific policy governing the Board's response to a takeover situation. Current legal advice on process that should be followed in the event of a takeover offer is readily accessible by Directors in their online Resource Centre. In the case of a takeover offer, Rakon will form an Independent Takeover Committee to oversee disclosure and response, and engage expert legal and financial advisers to provide advice on procedure.

Reporting and disclosure

Rakon's Directors are committed to keeping investors and the market informed of all material information about the company and its performance, in a timely manner.

Continuous disclosure

Rakon has a *Continuous Disclosure Policy* to ensure that material information is identified, reported, assessed and disclosed promptly and without delay to the market. This policy is regularly reviewed and circulated to Directors and employees, along with further guidance on the application of the policy and additional reminders. Continuous disclosure is a standing agenda item for each Board meeting for formal consideration as to whether there is any relevant material information that should be disclosed to the market. In addition to all information required by law, Rakon also seeks to provide sufficient meaningful information, including financial and non-financial information, to ensure stakeholders and investors are well-informed of all material information.

Financial information

Our business teams are responsible for implementing and maintaining the appropriate accounting and financial reporting principles, policies and internal controls designed to ensure compliance with accounting standards and applicable laws and regulations.

The Audit and Risk Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, clarity, balance and timeliness of financial statements. It reviews Rakon's full and half-year financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit.

All matters required to be addressed, and for which the Committee has responsibility, were addressed for the reporting period ended 31 March 2022.

For the financial year ended 31 March 2022, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the company and compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Chief Executive Officer and Chief Financial Officer have confirmed in writing to the Board that Rakon's external financial reports present a true and fair view of the company's financial position in all material aspects.

Rakon's full and half-year financial statements for the current year and the past seven years are available on our website.

Corporate governance

Non-financial information

This year for the first time, we combined non-financial reporting into the Annual Report, recognising the interdependence of financial and non-financial matters to the long-term sustainability of the business. During FY22 Rakon initiated a formal process to understand Environmental, Social and Governance (ESG) priorities including input from stakeholders as we build our formal framework for mature sustainability reporting. For further information see pages 31–33.

Remuneration

Rakon applies a fair and equitable approach to remuneration having regard to the financial position of the company and the external environment.

For full information please refer the Remuneration section at page 96.

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:

www.rakon/investors/corporate-governance

Risk management

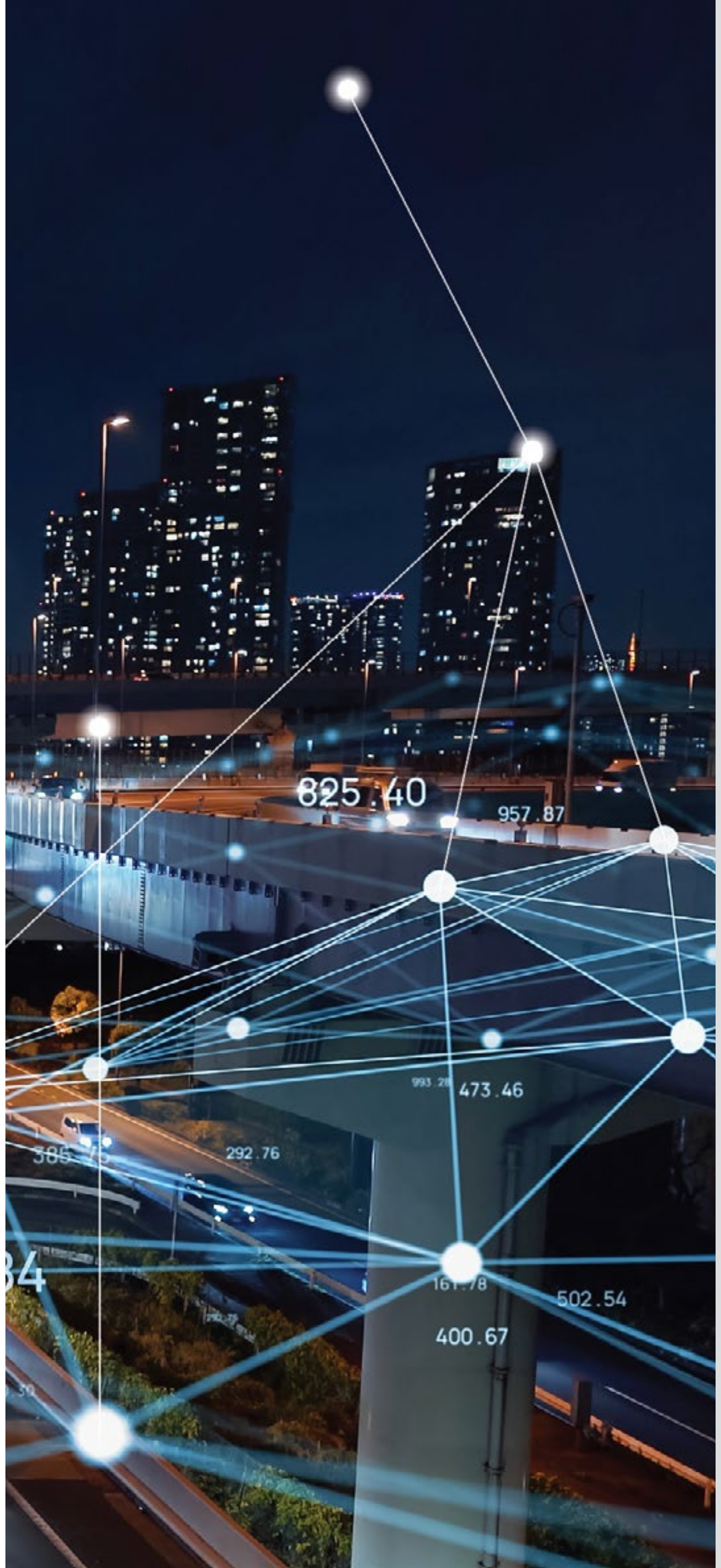
Rakon is committed to the identification, monitoring and management of material financial and non-financial risks associated with all its business activities in the interests of all of its stakeholders.

The Board has overall responsibility for Rakon's system of risk management and internal control and delegates day-to-day management of risk to the Chief Executive Officer. The Audit and Risk Committee provides additional and more specialised oversight of the company's risks to support the Board's oversight.

As recorded in the Audit and Risk Committee's Charter, the Board delegates specific responsibilities to the Committee in regard to risk assurance. The Committee's work plan and meeting schedule provide dedicated time for review of the company's risk management framework, financial risks, operational risk registers and review of the company's risk appetite. The Committee is required to report its findings to the full Board.

The Board maintains a strategic risk register which is required to be reviewed and updated as required at each meeting. The Board and management are focused on the continuous improvement and effectiveness of Rakon's risk management framework.

Managers are required to regularly review the key risks in their areas of responsibility and to assess, rate, control, mitigate or monitor such risks. Key operational, quality management system, environmental management system, business continuity, project and strategic risks are required to be reviewed by the senior management team to assess whether appropriate risk management actions are being taken, and the key risks are reported to the Audit and Risk Committee and Board for further oversight.



Corporate governance

Health, safety and well-being

Health, safety and well-being matters are the responsibility of the full Board, with oversight of policy and legislative compliance by the People Committee. The Board recognises that effective management of employee health, safety and well-being is essential for the operation of a successful business, and to prevent harm and promote well-being for employees, contractors and customers.

The Board is responsible for governance and oversight of Rakon's health and safety framework. This includes ensuring that the systems used to identify and manage health and safety risks foster an effective health and safety culture, set clear expectations, are fit for purpose, and are effectively implemented, properly resourced, regularly reviewed and continuously improved.

Rakon continues to review its health and safety policy and practices to achieve consistency of behaviour, processes and expectations across its global businesses.

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:
www.rakon/investors/corporate-governance

Key risks

Issue	Risk Description	Controls and Mitigation
Health, Safety and Well-being	Employee workplace accidents and illness	Rakon maintains a global focus on health, safety and well-being through policy, practices and management. Information on the management of health, safety and well-being across Rakon's global operations is provided regularly to the Board including incident reporting and critical risks.
Product Quality	Defects in product causing losses or damage to customers or public	Rakon maintains global quality management system (ISO certified) at manufacturing sites in New Zealand, France and India, and strong cultural focus on quality.
Intellectual Property and Technology Disruption	Third party assertion of intellectual property rights and competing technology	Rakon maintains a significant investment in R&D and a strong cultural focus on technology leadership in the frequency control product industry and management of its patent portfolio.
Business Continuity	Catastrophic events and supply chain disruption	Rakon maintains business continuity protocols and manages and maintains its focus on dual sourcing and inventory management, dual manufacturing capability and Plan B business management system arrangements.
Access to Markets	Geo-political issues affecting suppliers of parts and sales	Rakon maintains diversification of global suppliers, product lines, customers and operating locations.
Cyber Security	Cyber-attack or data breach	Rakon maintains a continuous improvement process including policies, practices and control mechanisms to protect personal and customer and business information and address risk of cyber attacks and data breaches.

Climate-related risks

Rakon documents, scores and manages operational climate-related risks through its ISO14001 Environmental Management System processes.

Rakon recognises the importance of fully integrating its climate related risk assessment processes into its risk management framework, ensuring management review and Board level oversight to ensure the impact of climate change risks and opportunities form part of Rakon's strategy and financial planning. Based on advice from management to the Board, Directors are satisfied Rakon does not currently have any significant climate-related risks.

Management of waste and hazardous material management, water and carbon emissions and climate adaptation and resiliency were recognised as important topics by stakeholders during Rakon's recent assessment of its Environmental, Social and Governance materiality issues as more particularly discussed on pages 31–33.

Corporate governance

Auditors

External audit

The Board is committed to ensuring audit independence, both in fact and appearance, in order that Rakon's external financial reporting is viewed as being highly objective and without bias.

The Audit and Risk Committee reviews the quality and cost of the audit undertaken by the company's external auditor and provides a formal channel of communication between the Board, senior management and external auditor. For the financial year ended 31 March 2022, PricewaterhouseCoopers (PwC) was Rakon's external auditor, a position it has held since 2006.

As outlined in the Audit and Risk Committee Charter, the Committee regularly meets with the external auditor to approve the terms of engagement, audit partner rotation (at least every five years) and audit fee, and to review and provide feedback in respect of the annual audit plan. A comprehensive review and formal assessment of the independence and effectiveness of the external auditor is undertaken periodically. The Committee routinely allows time to meet with the external auditor without management present.
The Audit and Risk Committee assesses the auditor's independence on an annual basis.

All audit work at Rakon is fully separated from non-audit services, to ensure that appropriate independence is maintained. Other services provided by PwC in FY22 were non-audit related. These services were deemed to have no effect on the independence or objectivity of the auditor in relation to audit work. The fees paid to PwC for audit and non-audit work are identified in note 7 to the Financial Statements in this 2022 Annual Report.

Rakon's External Auditor Independence Policy provides comprehensive and current guidance to Directors and management to assist them in determining the services that may or may not be performed by the external auditor.

PwC has provided the Audit and Risk Committee with written confirmation that, in their view, they were able to operate independently during FY22.

The audit partner of the company's external auditor, PwC, is asked to attend the company's annual meetings, and to be available to answer questions from shareholders at those meetings. The PwC audit partner attended Rakon's 2021 Annual Shareholders' Meeting and is expected to be in attendance at the 2022 Annual Shareholders' Meeting.

Internal audit

Rakon has a number of internal controls overseen by the Audit and Risk Committee and the Board, which are supported by policy, processes and procedures and regular reporting. These include controls for computerised information and management systems, cyber risk and information security, business continuity management, insurance, health and safety, conflicts of interest, prevention and identification of fraud and legislative compliance.

The company does not have a permanent internal audit function. From time to time and as required external audit services are engaged to review its systems and internal controls. To maintain its ISO accreditation for a number of its management systems including the Quality Management System and the Environmental Management System Rakon is subject to rigorous, regular independent audits.

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:
www.rakon/investors/corporate-governance

Corporate governance

Shareholder rights and relations

We are committed to open and regular dialogue and engagement with shareholders.

Rakon seeks to ensure that investors understand its activities by communicating effectively with them and giving them access to clear and balanced information. The Board regularly reviews its shareholder communications strategy.

In FY22 Rakon undertook an Investor Perception Study and also engaged with investors, potential investors and investor representatives to inform its assessment of its material Environmental, Social and Governance issues.

Rakon maintains a website: www.rakon.com where shareholders and other stakeholders may obtain up-to-date financial and operational information and key governance information along with other information about the company and its products.

The annual review of Rakon's compliance with the NZX Corporate Governance Code (NZX Code) is available on Rakon's website in the relevant annual report.

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at:
www.rakon/investors/corporate-governance

Rakon has a calendar of communications and events for shareholders, including but not limited to:

- Annual Report and half year shareholder communications
- Annual and half year results announcements
- Annual and interim business update and results presentations
- Annual meetings
- Investor Day
- Ad hoc investor presentations to institutional investors and retail brokers
- Easy access to information through the Rakon website: www.rakon.com
- Access to management and the Board via a dedicated email address: **investors@rakon.com**
- Option to sign-up via website to receive email notification of investor news
- Option to sign-up via website to receive product updates.

Shareholders are actively encouraged to attend the company's annual meetings and vote on major decisions, which affect Rakon. Voting is by poll, upholding the 'one share, one vote' philosophy. Shareholders may raise matters for discussion at these events. While to date, Rakon has held in-person meetings only, allowing shareholders who are unable to attend to receive audio and more recently video transmission of the meeting, it is now Rakon's intention to move to a hybrid meeting allowing those not present to actively participate in the meeting. Rakon believes this change will better recognise the wide geographic dispersion of shareholders in New Zealand and overseas as well as addressing concerns regarding Covid-19.

All shareholders have the option to elect to receive electronic communications from the company through the company's share registrar (Computershare) and by electing to receive notification of investor news.

In addition to shareholders, Rakon has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association and regulators, as well as Rakon employees, customers and suppliers.

In accordance with the Companies Act 1993, Rakon's Constitution and the NZX Listing Rules, Rakon will refer major decisions which may change the nature of Rakon to shareholders for approval.

The Board notes the NZX Code recommendation in relation to considering the interests of all existing financial product holders.
The Board will take account of the recommendation in the event of a capital raise, as well as the expectation that it should explain why any capital raising method other than pro-rata was preferred when reporting its governance practices against the NZX Code.

Glossary

Crystal Filter
A filter that allows only the desired frequency to pass through to the output.

Crystal Micro-Electro-Mechanical System (XMEMS®)
Rakon's advanced quartz-based resonator technology. It is made using Rakon's NanoQuartz™ microfabrication process, delivering unprecedented resonator and oscillator performance.

Crystal Oscillator (XO)
A crystal resonator combined with appropriate circuitry to generate a variety of repeating electrical signal waveforms (e.g. CMOS /square wave).

Crystal (Xtal) Resonator
At the heart of XOs, VCXOs, TCXOs and OCXOs are quartz crystal resonators, which naturally oscillate at a certain frequency with electrical stimulation. This frequency is based off their width and the piezoelectric effect.

Oscillator
A circuit or device that generates a fixed frequency signal and consists of a resonator and electronic components.

Oven Controlled Crystal Oscillator (OCXO)
A crystal oscillator that uses a miniaturised oven to keep its internal temperature constant.

Oven Controlled SAW Oscillator (OCSO)
An oven controlled oscillator using Surface Acoustic Wave (SAW) technology.

Surface Acoustic Wave (SAW) Resonator
At the heart of SAW oscillators are SAW resonators. This is a special type of crystal resonator that has the piezoelectric effect occurring on the resonator's surface, compared to traditional resonators which are through the bulk of the crystal resonator.

System Solutions
Refers to Rakon's solutions that include high performance products, equipment and consulting services for Space & Defence.

Temperature Compensated Crystal Oscillator (TCXO)
A crystal oscillator with additional circuitry to remove frequency variations due to temperature change.

Ultra Stable Oscillator (USO)
An extremely stable oscillator used in high-end space and instrumentation applications.

Ultra Stable TCXO
Using unique technology these TCXOs can achieve stabilities of 50 parts per billion (ppb) over temperature.

Voltage Controlled Crystal Oscillator (VCXO)
A VCXO is an XO that allows the user to manually adjust a control voltage; it helps to compensate for instabilities in the output frequency. It is mainly used to bring the oscillator back to frequency after being impacted by instabilities (e.g. long term stability).

Voltage Controlled Oscillator (VCO)
A purely electronic oscillator circuit with an adjustable output frequency, without the use of a crystal or SAW resonator.

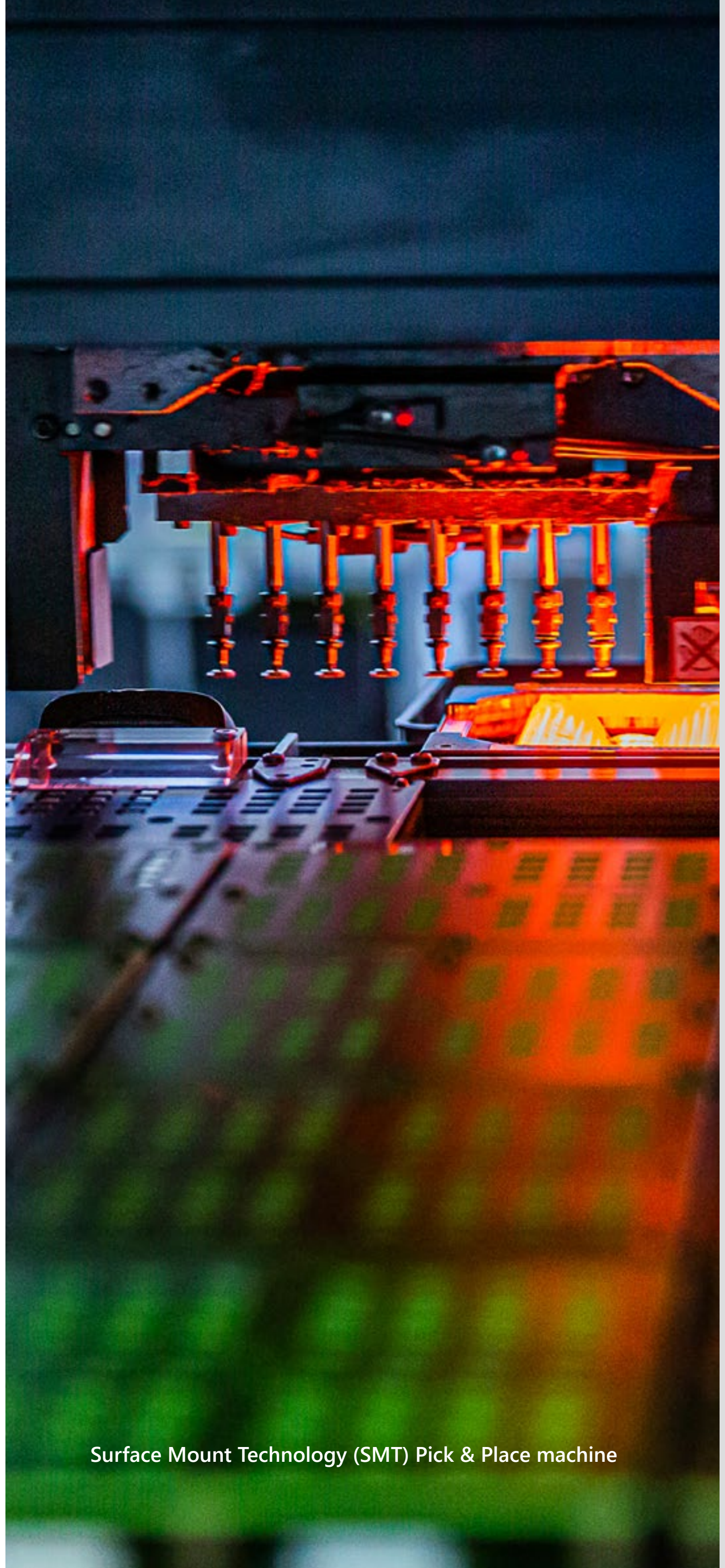
Voltage Controlled SAW Oscillator (VCSO)
Similar to the VCXO, but uses a SAW resonator instead of a traditional crystal resonator.

Definition of Underlying EBITDA
Rakon has used 'Underlying EBITDA' as a non-gap financial measure in this 2022 Annual Report document. Underlying EBITDA is defined as 'Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associate's share of interest, tax and depreciation, loss on disposal of assets and other cash and non-cash items'. Refer to note 5 of the Financial statements section of this document for additional information including a reconciliation to Net Profit After Tax (NPAT).

Find out more

Visit our Investor Centre:
www.rakon.com/investors

At our Investor Centre you can sign up for our email alerts and receive investor news updates straight to your inbox.



Surface Mount Technology (SMT) Pick & Place machine

Financial statements

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Directors’ statement

The Directors are responsible for ensuring that the financial statements fairly present the financial position of the Group as at 31 March 2022 (FY2022) and the financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept, which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Directors consider they have taken adequate steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Directors present the financial statements, set out in pages 49 – 90, of Rakon Limited and subsidiaries for the year ended 31 March 2022.

The Board of Directors of Rakon Limited authorised these financial statements for issue on 25 May 2022.

On behalf of the Directors

L. Witten
Chair

S. Horgan
Chair of the Audit and Risk Committee

Statement of Comprehensive Income

For the year ended 31 March 2022

	Note	2022 $000s	2021 $000s
Continuing operations			
Revenue	6	171,967	128,260
Cost of sales		(81,907)	(69,344)
Gross profit		**90,060**	**58,916**
Other operating income	8	1,634	2,604
Operating expenses			
Selling and marketing		(9,424)	(9,441)
Research and development	7	(11,726)	(12,944)
General and administration		(28,193)	(26,636)
Total operating expenses		**(49,343)**	**(49,021)**
Other (losses)/gains – net	9	(937)	(1,181)
Operating profit		**41,414**	**11,318**
Finance income	10	39	29
Finance costs	10	(1,945)	(1,628)
Share of net profits of associates	17	2,382	1,446
Profit before income tax		**41,890**	**11,165**
Income tax expense	22	(8,779)	(1,527)
Net profit after tax for the year attributable to equity holders of the Company		**33,111**	**9,638**

For the year ended 31 March 2022

	Note	2022 $000s	2021 $000s
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Decrease in fair value cash flow hedges		(697)	9,906
Cost of hedging		(725)	(105)
Income tax relating to components of other comprehensive income		398	(2,745)
Exchange differences on translation of foreign operations		(517)	(4,826)
Long term incentive plan		108	–
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of equity investments – Thinxtra		(440)	203
Other comprehensive income for the year, net of tax		**(1,873)**	**2,433**
Total comprehensive income for the year attributable to equity holders of the Company		**31,238**	**12,071**
Earnings per share attributable to the equity holders of the Company		**Cents**	**Cents**
Basic earnings per share	24	14.6	4.2
Diluted earnings per share	24	14.5	4.2

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

Statement of Changes in Equity

For the year ended 31 March 2022

	Note	Share capital $000s	Retained earnings $000s	Other reserves $000s	Total equity $000s
Balance at 31 March 2020		**181,024**	**(65,875)**	**(23,293)**	**91,856**
Net profit after tax for the year		–	9,638	–	9,638
Currency translation differences	25	–	–	(4,826)	(4,826)
Cash flow hedges, net of tax	25	–	–	7,056	7,056
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	25	–	–	203	203
Total comprehensive income for the year		**–**	**9,638**	**2,433**	**12,071**
Balance at 31 March 2021		**181,024**	**(56,237)**	**(20,860)**	**103,927**
Net profit after tax for the year		–	33,111	–	33,111
Currency translation differences	25	–	–	(517)	(517)
Cash flow hedges, net of tax	25	–	–	(1,024)	(1,024)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	25	–	–	(440)	(440)
Total comprehensive income for the year		**–**	**33,111**	**(1,981)**	**31,130**
Contribution of equity net of transaction costs					
Employee share schemes					
Value of employee services	30	–	–	108	108
Balance at 31 March 2022		**181,024**	**(23,126)**	**(22,733)**	**135,165**

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

Balance Sheet

As at 31 March 2022

	Note	2022 $000s	2021 $000s
Assets			
Current assets			
Cash and cash equivalents	11	39,229	15,073
Trade and other receivables	12	44,522	38,906
Inventories	13	57,321	37,699
Derivative financial instruments	26	1,345	2,521
Financial asset at fair value through profit or loss	26	201	333
Current income tax asset		213	478
Total current assets		**142,831**	**95,010**
Non-current assets			
Property, plant and equipment	14	21,388	18,296
Intangible assets	15	7,164	7,584
Right-of-use assets	16	4,792	7,195
Interest in associates	17	16,172	12,333
Trade and other receivables	12	1,941	3,843
Financial asset at fair value through other comprehensive income – Thinxtra	18	2,680	3,120
Derivative financial instruments	26	1,095	587
Deferred tax asset	22	1,806	6,398
Total non-current assets		**57,038**	**59,356**
Total assets		**199,869**	**154,366**

As at 31 March 2022

	Note	2022 $000s	2021 $000s
Liabilities			
Current liabilities			
Bank overdraft	19	–	3,599
Borrowings	19	1,297	6,433
Trade and other payables	20	36,008	26,026
Current income tax liabilities		2,457	–
Lease liabilities	16	2,076	2,272
Deferred income	12	–	2,806
Provisions	21	631	330
Derivative financial instruments	26	854	29
Total current liabilities		**43,323**	**41,495**
Non-current liabilities			
Borrowings	19	14,684	–
Provisions	21	2,817	3,134
Lease liabilities	16	3,404	5,418
Derivative financial instruments	26	385	260
Deferred tax liabilities	22	91	132
Total non-current liabilities		**21,381**	**8,944**
Total liabilities		**64,704**	**50,439**
Net assets		**135,165**	**103,927**
Equity			
Share capital	23	181,024	181,024
Other reserves	25	(22,733)	(20,860)
Accumulated losses		(23,126)	(56,237)
Total equity		**135,165**	**103,927**

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

Statement of Cash Flows

For the year ended 31 March 2022

	2022 $000s	2021 $000s
Operating activities		
Cash provided from		
Receipts from customers	168,226	123,876
Advance from customers	–	2,806
R&D grants received	2,192	1,812
Covid-19 government assistance	63	2,517
Other income received	98	23
	170,579	**131,034**
Cash was applied to		
Payment to suppliers and others	(84,108)	(59,087)
Payment to employees	(53,947)	(50,060)
Interest paid	(1,811)	(534)
Income tax paid	(475)	(1,294)
	(140,341)	**(110,975)**
Net cash inflow from operating activities	**30,238**	**20,059**
Investing activities		
Cash was applied to		
Purchase of property, plant and equipment	(8,461)	(4,194)
Purchase of intangibles	(1,708)	(882)
	(10,169)	**(5,076)**
Net cash outflow from investing activities	**(10,169)**	**(5,076)**

For the year ended 31 March 2022

	2022 $000s	2021 $000s
Financing activities		
Cash was provided from		
Proceeds from borrowings	10,000	6,450
	10,000	6,450
Cash was applied to		
Lease liabilities payments	(2,625)	(2,962)
Cash was applied to financing activities	**(2,625)**	**(2,962)**
Net cash inflow from financing activities	**7,375**	**3,488**
Net increase in cash and cash equivalents	**27,444**	**18,471**
Effects of exchange rate changes on cash and cash equivalents	311	765
Cash and cash equivalents at the beginning of the year	11,474	(7,762)
Cash and cash equivalents at the end of the period	**39,229**	**11,474**

Refer to note 11 for the breakdown of cash and cash equivalents.

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

Statement of Cash Flows (continued)

For the year ended 31 March 2022

	2022 $000s	2021 $000s
Reconciliation of net profit to net cash flows from operating activities		
Reported net profit after tax	**33,111**	**9,638**
Adjustments for		
Depreciation and amortisation expense	8,938	8,692
Net increase in allowance for expected credit loss	291	73
Interest expenses	–	17
Gain on dilution of investment in Timemaker	(634)	–
Provisions provided	551	(338)
Movement in foreign exchange rates	(851)	(961)
Share of net profits of associate	(2,382)	(1,446)
Deferred tax movement	5,041	(67)
Employee share based expense	108	–
	11,062	**5,970**
Change in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	(3,714)	1,498
Increase in inventories	(21,559)	(1,870)
Decrease in provisions	(17)	(168)
Increase in trade and other payables	10,357	4,528
Decrease in tax provisions and deferred tax	998	463
Total impact of changes in working capital items	**(13,935)**	**4,451**
Net cash flow from operating activities	**30,238**	**20,059**

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

Notes to the financial statements

1. General information

Rakon Limited ('the Company') and its subsidiaries ('the Group') are a global technology company that design and manufacture advanced frequency control and timing solutions for a wide range of applications. Rakon's core markets are Telecommunications, Space & Defence, and Global Positioning. The Company is a limited liability company, incorporated and domiciled in New Zealand, and listed on the New Zealand Stock Exchange (NZX code: RAK). The address of the registered office is 8 Sylvia Park Road, Mt Wellington, Auckland.

The Company is registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX (Main Board) Listing Rules.

The financial statements of the Group have been presented in New Zealand dollars and have been rounded to the nearest thousand unless otherwise indicated.

2. Impact of Covid-19

There remains a heightened level of uncertainty given the continued presence of Covid-19. The risks and uncertainties faced by the Group relate to (and are not limited to):

- The impact of wider global economic pressures and shift in market dynamics
- A potential outbreak at one of the Group's production facilities, significantly affecting site access, production and sales
- Supply chain disruptions

However, management continuously monitors these risks and plans accordingly to reduce the impact of these on the Group.

3. Going concern

These financial statements have been prepared on a going concern basis. The Directors are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. In making this assessment management and the Directors considered factors including the current profitability of the Group, and the potential future impact of Covid-19.

4. Statement of significant accounting policies

a. Basis of preparation and measurement base

The consolidated financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a Tier 1 for-profit entity.

The financial statements have been prepared on a historical cost basis, with the exception of certain financial assets and liabilities, and equity instruments, which are measured at fair value.

b. Basis of consolidation and equity accounting

The financial statements of the subsidiaries are included in the Group's financial statements from the date on which control commences until the date on which control ceases refer to note 28 for information on subsidiaries. All material intercompany transactions, balances and unrealised gains on transactions between the subsidiaries are eliminated on consolidation. Interest in associates are accounted for by using the equity method, refer to note 17.

c. Significant accounting estimates and judgements

The preparation of the financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions that involved a higher degree of judgement or complexity, or are significant to the financial statements are listed below and disclosed within the specified notes:

- Identification of reportable segment (note 5)
- Calculation of inventory obsolescence (note 13)
- Valuation and estimated useful lives of product development assets (note 15)
- Valuation of the Group's investment in Thinxtra (note 18)

d. Significant accounting policies and new accounting standards

The significant accounting policies adopted in the preparation of these consolidated financial statements are disclosed within each of the applicable notes to the financial statements. The accounting policies have been consistently applied to all years presented with the exception of the treatment of certain 'Software-as-a-Service' arrangements. The Group has reconsidered its accounting treatment of certain 'Software-as-a-Service' arrangements based on the publication of the IFRS Interpretations Committee (IFRIC) agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement in March 2021 and ratified by the International Accounting Standards Board (IASB) in April 2021 and changed its accounting policy for software intangible assets. The impact of the change did not have material effect on the Group's financial statements, refer to note 15.

Prior period information has been re-presented to ensure consistency with current year disclosures and to provide more meaningful comparison. In note 7, $700,000 research and development tax credit has been reclassified from general and administration expense to research and development expense.

e. New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 March 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

f. Consideration of climate change

The Group has considered the impact of climate change, particularly in the context of the disclosures included in the Annual Report this year. The assessment and risk identification is ongoing. There have been no material impact on the financial reporting judgements and estimates arising from these considerations.

g. Foreign currency translation

Functional and presentation currency

The financial statements of each of the Group's overseas operations are measured using the currency of the primary economic environment in which the overseas entity operates (the functional currency). The consolidated financial statements are presented in New Zealand dollars, (the presentation currency), which is also the functional currency of the Company.

Transactions and balances

Foreign currency transactions are translated into the relevant functional currency of the Group's overseas operations at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to the functional currency at the foreign exchange rate at that date. Foreign exchange differences arising from translation are recognised in the Statement of Comprehensive Income, except for qualifying cash flow hedges which are recognised in other comprehensive income (OCI). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates at the dates the fair value was determined.

The assets and liabilities of all Group companies that have a functional currency that differs from the Group's presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to New Zealand dollars at foreign exchange rates at balance date. The revenues and expenses of these foreign operations are translated to New Zealand dollars at rates approximating to the foreign exchange rates at the dates of the transactions. Exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve, refer to note 25.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the foreign exchange rates at the balance date.

5. Segment information

The chief operating decision maker (CODM), is responsible for allocating resources and assessing performance of the operating segments. During the year an internal restructure and realignment of operating segments caused a change in the responsibilities of the previous CODM positions (the Chief Marketing Officer, Chief Technology Officer and Chief Financial Officer) and as such the CODM has been redefined to be the Chief Executive Officer.

The operating segments are presented in a manner consistent with the internal reporting provided to the CODM. Significant judgement has been applied in the determination of reportable operating segments. Ownership of products' intellectual property have been used as the key factor to identify reportable operating segment and aggregation criteria.

The CODM assess the performance of the operating segments based on 'Underlying EBITDA', a non-GAAP measure, defined as: 'Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associate's share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items'. The CODM also receives information about the segments' revenue on a monthly basis.

During the year, management has completed internal reorganisation of operations which has affected how the CODM views segment information. Accordingly, to reflect these changes the segment reporting and comparatives have been restated. Before the change, segment information was based on geography. Increased synergies between the businesses across the geography has led to the formation of operating segments that is not limited by geography. The new segments are representative of these changes and are described below.

a. Segment results

Information relating to each reportable segment is set out below.

31 March 2022

	NZ $000s	France/ India $000s	France HiRel $000s	T'maker $000s	Other[1] $000s	Total $000s
Segment revenue by market						
Telecommunications	57,269	27,200	377	–	1,400	86,246
Global Positioning	26,345	50	217	–	526	27,138
Space and Defence	10,949	2,499	12,628	–	201	26,277
Other	25,871	200	5,645	–	590	32,306
Total segment revenue by market	120,434	29,949	18,867	–	2,717	171,967
Underlying EBITDA	42,010	3,743	1,370	4,593	2,715	54,431
Total assets[2]	121,953	37,925	22,210	16,172	1,609	199,869
Additions of property, plant and equipment, and intangibles	6,420	1,977	1,714	–	–	10,111
Total liabilities[3]	36,994	14,062	12,106	–	1,542	64,704

31 March 2021 Restated

	NZ $000s	France/ India $000s	France HiRel $000s	T'maker $000s	Other[1] $000s	Total $000s
Segment revenue by market						
Telecommunications	47,266	28,697	784	–	295	77,042
Global Positioning	13,628	117	194	–	61	14,000
Space and Defence	12,303	2,570	14,855	–	65	29,793
Other	2,324	81	4,997	–	23	7,425
Total segment revenue by market	75,521	31,465	20,830	–	444	128,260
Underlying EBITDA	14,455	2,327	210	3,288	3,204	23,484
Total assets[2]	84,374	30,813	24,818	12,333	2,028	154,366
Additions of property, plant and equipment, and intangibles	4,105	501	470	–	–	5,076
Total liabilities[3]	26,331	10,058	12,999	–	1,051	50,439

[1] Revenue is gains on cash flow hedges apportioned to each segment based on hedged currency.

[2] Segment assets are measured in the same way as in the financial statements. These assets are presented as it is regularly provided to the chief operating decision maker.

[3] Segment liabilities are measured in the same way as in the financial statements. These liabilities are presented as it is regularly provided to the chief operating decision maker.

b. Segment description and principal activities

The New Zealand (NZ) operating segment designs and manufactures products for Telecommunications, Global Positioning and Defence markets. The segment includes research and development (R&D) engineering teams located in NZ and UK which develop new products and process innovations.

The France/India operating segment designs and manufactures products for the Telecommunication market. Design and support services are in France and NZ, with manufacturing in India.

Rakon's India facility in Bengaluru contract manufacture products exclusively for the Group. They also design and manufacture products for the local Indian defence, aeronautics and space markets. Though there is potential for future growth in the domestic market, this business currently is not large enough for the CODM to view separately, therefore is aggregated with France Telecom.

The France HiRel operating segment designs and manufactures products for the Space & Defence markets. Design, support services and manufacturing are predominantly carried out in France.

The Timemaker Group (T'maker) produces crystal blanks and represents the Group's 37.07% (2021: 40%) ownership interest, refer to note 17.

All other segments (Other) includes Rakon Financial Services Limited, Rakon UK Holdings Limited, and Rakon Investment HK Limited. These are not operating segments and are not separately included in reports provided to the CODM. Also included are the head office, and group sales and marketing services segments. These are reported separately to the CODM.

c. Reconciliation of Underlying EBITDA to net profit after tax for the year

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 cash and non-cash items 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 operting 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.

Continuing operations	Note	2022 $000s	2021 $000s
Underlying EBITDA		**54,431**	**23,484**
Depreciation and amortisation	7	(8,938)	(8,692)
Adjustment for associate share of interest, tax and depreciation		(2,222)	(1,848)
Finance costs – net	10	(1,906)	(1,599)
Dilution gains on Timemaker investment	17	634	–
Other non-cash items		(109)	(180)
Profit before income tax		**41,890**	**11,165**
Income tax expense	22	(8,779)	(1,527)
Net profit after tax for the year		**33,111**	**9,638**

6. Revenue

The Group designs, manufactures and sells frequency control solutions for a wide range of applications. Revenue is derived from the transfer of goods over time and at a point in time at an amount that reflects the consideration the Group expects to be entitled to in exchange for products and services excluding any applicable taxes. Arrangements are agreed with the customers, set out in the terms and conditions which cover the pricing, settlement of liabilities, return policies and any other negotiated performance obligations.

Typically, control transfers to the customer at the same time as the legal title of the product is passed to the customer. This is usually on terms of delivery of the product. The transaction price includes all amounts that the Group expects to be entitled to, net of any sales taxes.

A receivable is recognised based on the delivery terms of the products as this is the point in time when the consideration is unconditional.

Sale of products – at a point in time

The Group recognises revenue when the performance obligations are satisfied by transferring control of products to the customer based on the specified contract price.

Products and services transferred over time – France HiRel segment

For certain contracts in the France HiRel segment, the revenue is recognised over time as the Group's performance creates an asset, which does not have an alternative use to the Group, and the Group has an enforceable right to be paid for work completed to date. The Group applies judgement by using the percentage-of-completion method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

In case of fixed price contracts, payments are received from the customer based on an agreed payment schedule. A contract liability is recognised when the payments exceed estimated work completed, and contract asset when estimated work completed exceeds payments.

Notes to the financial statements (continued)

a. Reportable segment revenue from contracts with customers

31 March 2022

	NZ $000s	France/ India $000s	France HiRel $000s	Other $000s	Total $000s
Products transferred at a point in time	120,434	29,949	15,451	2,717	168,551
Products and services transferred over time	–	–	3,416	–	3,416
Sales to external customers	**120,434**	**29,949**	**18,867**	**2,717**	**171,967**

31 March 2021 Restated

	NZ $000s	France/ India $000s	France HiRel $000s	Other $000s	Total $000s
Products transferred at a point in time	75,521	31,465	17,387	444	124,817
Products and services transferred over time	–	–	3,443	–	3,443
Sales to external customers	**75,521**	**31,465**	**20,830**	**444**	**128,260**

b. Revenue by geography

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

	2022 $000s	2021 $000s
Asia	114,695	69,950
North America	29,274	29,035
Europe	25,672	26,970
Others	2,326	2,305
	171,967	**128,260**

c. Assets and liabilities related to contract customers

The Group has recognised the following assets and liabilities related to contracts with customers in France HiRel segment.

	2022 $000s	2021 $000s
Total current contract assets	1,843	3,051
Total current contract liabilities	(1,935)	(1,573)
	(92)	**1,478**

The contract assets have decreased as the Group has provided fewer services ahead of the agreed payment schedules. Customer contracts liabilities are payments received in advance for subsequent delivery of services and goods to the customers. In prior year $1,573,000 was recognised as customer contract liabilities, and is recognised as revenue in the year ended 31 March 2022. The remaining performance obligations at 31 March 2022 have an expected duration of less than a year.

The performance obligation of the products and services transferred over time which were in progress at 31 March 2021 were completed during the year. The remaining performance obligations at 31 March 2022 have an expected duration of less than a year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

7. Expenditure included in net profit

Additional information in respect of expenses included in the Statement of Comprehensive Income is as follows:

a. Expenditure by nature

	2022 $000s	2021 $000s
Employee benefit expenses		
Wages and salaries	50,354	46,292
One-off redundancy costs	–	1,092
Contributions to defined plans	723	671
Increase in liability for French retirement indemnity plan (note 21)	325	200
Increase in liability for long service leave (note 21)	274	150
Long term incentive plan (note 30)	148	–
Total employee benefit expenses	**51,824**	**48,405**
Depreciation and amortisation		
Depreciation on property, plant and equipment (note 14)	4,663	3,952
Amortisation on intangible assets (note 15)	1,849	2,064
Depreciation on right-of-use assets (note 16)	2,426	2,676
Total depreciation and amortisation	**8,938**	**8,692**
Research and development		
Research and development expenses	13,802	15,312
Research and development government grant	(277)	(939)
Research and development tax credit	(1,799)	(1,429)
Net research and development expense	**11,726**	**12,944**

	2022 $000s	2021 $000s
Fees to the auditors		
Audit and review of financial statements		
PwC	573	577
BDO Limited (Hong Kong) [1]	16	11
T S Tay Public Accounting Corporation (Singapore) [1]	8	9
Morison (Mauritius) [1]	–	4
MHA MacIntyre Hundson (UK) [1]	34	35
Total audit and review fees	**631**	**636**
Assurance and audit related services		
Performed by PWC France		
Certification of expenditure for the purposes of the European Union subsidy for community projects	11	8
Performed by PWC India		
Certification of expenditure for the purposes of the Production Linked Incentive Scheme	2	–
Total assurance and audit related services	**13**	**8**
Other services		
Performed by PwC New Zealand		
Provision of market data relating to executive remuneration	–	14
Performed by PWC France		
Statutory reporting required in France in respect of capital	10	–
Certification of expenditure for the purposes of the European grants on innovation projects	6	–
Total other services fees	**16**	**14**
Total fees paid to auditors	**660**	**658**

[1] The fee relates to the annual audit of the local territory financial statements.

Employee benefits expenses

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

Superannuation schemes

The Group's New Zealand and overseas operations participate in their respective government superannuation schemes. Where the Group is required to pay fixed contributions into a separate entity, the Group has no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due.

Redundancy

In 2021 the Group's strategic plan involved realignment of global resources which resulted in redundancies in some business units and creation of new positions in others.

Research and development

Expenditure on research activities has been undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Any research and development taxation credits and government grant funding for research and development are recognised when eligibility criteria have been met and there is a reasonable assurance that tax credits and the grants will be received.

Grants and tax credits from governments are recognised at their fair value. The research and development grants and tax credits are recognised in trade and other receivables (note 12), and in the Statement of Comprehensive Income. Government grants are offset against the related expenses over the periods in which those costs are recognised.

8. Other operating income

Revenue from activities which are not related to principal activities of the Group.

	2022 $000s	2021 $000s
Other income	478	260
Sale of raw materials	459	–
Dilution gain on Timemaker investment (note 17)	634	–
Covid-19 government assistance[1]	63	2,344
Total other operating income	**1,634**	**2,604**

[1] Eligible New Zealand wage subsidy, the UK Government funded furlough, and French Government assistance were received in prior year. The current year includes New Zealand Covid leave support subsidy.

9. Other (losses)/gains – net

	2022 $000s	2021 $000s
Gain/(Loss) on disposal of property, plant and equipment, and intangible assets	17	(24)
Foreign exchange (losses)/gains – net		
Forward foreign exchange contracts		
Financial asset at fair value through profit or loss	327	304
Revaluation of foreign denominated monetary assets and liabilities [1]	(1,281)	(1,461)
Total foreign exchange losses – net	**(954)**	**(1,157)**
Total other losses – net	**(937)**	**(1,181)**

[1] Includes realised and unrealised (losses)/gains arising from accounts receivable and accounts payable.

Notes to the financial statements (continued)

10. Net finance (costs)/income

Interest income and costs are recognised in the Statement of Comprehensive Income as it accrues, using the effective interest rate applicable.

	2022 $000s	2021 $000s
Finance income		
Interest income	39	29
Finance costs		
Interest expense on borrowings	(1,563)	(534)
Unwinding of lease make good provision	(17)	(17)
Interest on lease liabilities (note 16)	(365)	(1,077)
Total finance costs	**(1,945)**	**(1,628)**
Net finance costs	**(1,906)**	**(1,599)**

Interest expense rate

The average interest rate was as follows. Additional information on borrowings is presented in note 19.

- Tanarra Credit Partners 9.11% (2021: Not Applicable)
- ASB facility in New Zealand – not applicable (2021: 5.33%)
- State Bank of India facility 8.70% (2021: 9.15%)
- Crédit Agricole Provence Côte D'Azur facility in France 0.25% (2021: 0.25%)

11. Cash and cash equivalents

Cash and cash equivalents comprise of cash balances, call deposits, and other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown separately from borrowings on the balance sheet.

	2022 $000s	2021 $000s
Cash at bank and on hand	39,229	15,073
Cash, cash equivalents and bank overdrafts include the following for the purposes of the Statement of Cash Flows		
Cash and cash equivalents	39,229	15,073
Bank overdrafts (note 19)	–	(3,599)
	39,229	**11,474**

12. Trade and other receivables

Trade and other receivables are recognised initially at the amount of consideration that is unconditional and subsequently measured at amortised cost using the effective interest method. Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be the same as their fair value.

Trade receivables are amounts due from customers, who are considered of acceptable credit quality, for products or services performed in the ordinary course of the business and are non-interest bearing. They are generally due for settlement within 30 to 120 days.

The Group has established credit policies under which each new customer is analysed individually for credit-worthiness before payment and delivery terms and conditions are agreed. The Group's review includes trade references and external ratings, where appropriate and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount; these limits are reviewed periodically. Customers that fail to meet the Group's benchmark credit-worthiness may transact with the Group only on a prepayment basis.

The trade receivables balances included $10,500,000 (2021: $8,700,000) representing 32.0% (2021: 28.0%) due from the Group's three largest customers. The balances due from these customers are current and are considered a low credit risk to the Group.

During prior year an advance of US$2.0m was received from a customer for future supply of products. A corresponding deferred income was recorded.

The maximum exposure to credit risk at balance date is the carrying value of each class of receivable mentioned below. The Group does not hold any collateral as security.

a. Trade and other receivables balances

	2022 $000s	2021 $000s
Trade receivables	33,096	31,378
Less: allowance for expected credit loss	(1,002)	(690)
Net trade receivables	32,094	30,688
Prepayments	1,490	953
GST/VAT receivable	1,565	1,085
Receivables from related parties (note 29)	354	266
Other receivables [1]	10,960	9,757
Total trade and other receivables	**46,463**	**42,749**
Less non-current other receivables [1]	1,941	3,843
Current trade and other receivables	**44,522**	**38,906**

[1] Other receivables includes research and development related tax credits and government grants.

b. Allowance for expected credit loss

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Trade receivables are written off when considered to have become uncollectable. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Group applies the NZ IFRS 9 Financial Instruments simplified approach to measure the expected credit loss provision that uses a lifetime expected loss allowance for all trade receivables and contract assets. The management applies judgement based on the historical credit losses, customer ageing, and forward-looking information on factors affecting the ability of the customers to settle the receivables to calculate allowance for expected credit loss.

The loss allowance was determined as follows:

	Current $000s	Less than 30 days past due $000s	30 days to 180 days past due $000s	More than 180 days past due $000s	Total $000s
As at 31 March 2022					
Gross carrying amount of trade receivables	24,227	5,591	890	437	31,145
Expected loss rate	0.77%	5.19%	22.28%	74.72%	
Allowance for the expected credit loss	**187**	**290**	**198**	**327**	**1,002**
As at 31 March 2021					
Gross carrying amount of trade receivables	25,947	3,428	1,500	503	31,378
Expected loss rate	0.99%	2.30%	16.90%	20.00%	
Allowance for the expected credit loss	**257**	**79**	**253**	**101**	**690**

The reconciliation of the loss allowance is as follows:

	2022 $000s	2021 $000s
Opening balance	690	763
Increase in allowance recognised in profit or loss during the year	321	220
Receivables written off during the year	–	(247)
Foreign exchange difference	(9)	(46)
Allowance for expected credit loss as at 31 March 2022	**1,002**	**690**

Trade receivables are written-off where all reasonable effort to collect the overdues have been exhausted. Indicators that there is no expectation of recovery include failure of an overdue debtor to engage in an agreed repayment plan.

13. Inventories

Inventories are stated at the lower of cost (weighted average cost for raw materials, and standard costs for finished goods) or net realisable value. Standard costs comprise direct materials, direct labour and appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

a. Inventory classification and balances

	2022 $000s	2021 $000s
Raw materials	21,658	12,487
Work in progress	25,932	17,960
Finished goods	9,731	7,252
Total inventories	**57,321**	**37,699**

Due to component shortages and increased lead time, the Group made the decision to hold higher contingency inventory for high demand products in order to reduce customer disruptions.

b. Amounts recognised in profit and loss

Inventories recognised as an expense during the year amounted to $52,614,000 (2021: $34,860,000). Write-downs of inventories to net realisable value amounted to $7,000 (2021: $50,000). These were included in the cost of sales.

There were no new or reversal of unused inventory obsolescence provisions during the year (2021: nil).

c. Inventory obsolescence

In recognising the provision for inventory, significant judgement has been applied by considering a range of factors including inventory ageing and expected future consumptions.

An inventory obsolescence provision of $6,930,000 (2021: $7,970,000) is included in the inventory balances above. The carrying value of inventory items were reviewed in detail with adjustments to provisions made on an item-by-item basis.

The Group has not seen a material negative change in demand for its products due to Covid-19. Accordingly, Covid-19 is not expected to adversely impact the carrying value of inventory.

During the year inventory of $1,540,000 (2021: $2,466,000) was scrapped.

14. Property, plant and equipment

The Group recognises the cost of an item as property, plant and equipment only if it is probable that future economic benefits associated with the item will flow to the entity, and the cost of the item can be measured reliably.

a. Cost

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service. The initial estimate of the costs of dismantling and removing the items and restoring the site on which it is located is also included in the cost. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. The costs of day-to-day maintenance of an asset are not included in the carrying amount of the asset but expensed when incurred.

Notes to the financial statements (continued)

After initial recognition, the property, plant and equipment are stated at cost, less accumulated depreciation and any impairment losses.

b. Depreciation methods and useful lives

Depreciation of property, plant and equipment, other than freehold land, is calculated on a straight-line basis to expense the cost of the assets to their expected residual values over their useful lives as follows:

Land	Nil
Buildings	15 – 20 years
Leasehold improvements	5 – 25 years
Plant and equipment	1 – 20 years
Computer hardware	1 – 10 years
Furniture and fittings	3 – 20 years
Assets under construction	Nil

The assets' residual values and useful lives are reviewed, and adjusted if applicable at each balance date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the 'other (losses)/gains – net' in the Statement of Comprehensive Income.

	Land and buildings $000s	Leasehold improve-ments $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assests under construction $000s	Total $000s
At 31 March 2020							
Cost	5,845	8,798	89,409	5,989	2,654	3,122	115,817
Accumulated depreciation & impairment	(4,415)	(6,667)	(78,516)	(5,126)	(2,143)	(26)	(96,893)
Net book value	**1,430**	**2,131**	**10,893**	**863**	**511**	**3,096**	**18,924**
Year ended 31 March 2021							
Opening net book value	1,430	2,131	10,893	863	511	3,096	18,924
Foreign exchange differences	(126)	(145)	(497)	(30)	(38)	(31)	(867)
Additions	7	32	2,768	570	41	776	4,194
Disposals	–	–	(123)	(600)	(12)	–	(735)
Depreciation charge	(68)	(386)	(3,012)	(429)	(57)	–	(3,952)
Depreciation reversal on disposals	–	–	122	598	12	–	732
Transfers	–	–	2,089	28	–	(2,117)	–
Closing net book amounts	**1,243**	**1,632**	**12,240**	**1,000**	**457**	**1,724**	**18,296**
At 31 March 2021							
Cost	5,726	8,685	93,646	5,957	2,645	1,750	118,409
Accumulated depreciation & impairment	(4,483)	(7,053)	(81,406)	(4,957)	(2,188)	(26)	(100,113)
Net book value	**1,243**	**1,632**	**12,240**	**1,000**	**457**	**1,724**	**18,296**

	Land and buildings $000s	Leasehold improve-ments $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assests under construction $000s	Total $000s
Year ended 31 March 2022							
Opening net book value	1,243	1,632	12,240	1,000	457	1,724	18,296
Foreign exchange differences	(61)	(53)	(150)	(10)	(18)	(17)	(309)
Additions	1,580	183	3,105	426	94	3,015	8,403
Disposals	–	–	(1,810)	(1,384)	–	(383)	(3,577)
Depreciation charge	(67)	(337)	(3,759)	(452)	(48)	–	(4,663)
Depreciation reversal on disposals	–	–	1,764	1,384	–	–	3,148
Transfers	–	18	1,234	19	7	(1,278)	–
Transfer from intangibles						90	90
Closing net book amounts	**2,695**	**1,443**	**12,624**	**983**	**492**	**3,151**	**21,388**
At 31 March 2022							
Cost	7,245	8,833	96,025	5,008	2,728	3,177	123,016
Accumulated depreciation & impairment	(4,550)	(7,390)	(83,401)	(4,025)	(2,236)	(26)	(101,628)
Net book value	**2,695**	**1,443**	**12,624**	**983**	**492**	**3,151**	**21,388**

15. Intangible assets

The Group recognises intangible assets where it is able to demonstrate control on the asset to obtain future economic benefit. The Group also recognises internally generated intangible assets arising from development phase of an internal project if following conditions are demonstrated:

- the technical feasibility and the intention to complete the intangible asset
- how the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset
- ability to measure reliably the expenditure attributable to the intangible asset during its development

a. Cost

Identifiable intangible assets that are acquired or developed by the Group are stated at cost less accumulated amortisation and impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

b. Amortisation and useful lives

Amortisation is charged to the "operating expenses" in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives as follows:

Goodwill	Nil
Patents	20 years
Software	3 – 10 years
Product development	3 – 10 years
Assets under construction	Nil

Notes to the financial statements (continued)

	Goodwill $000s	Patents $000s	Software $000s	Product development $000s	Assests under construction $000s	Total $000s
At 31 March 2020						
Cost	3,140	2,977	9,470	14,815	926	31,328
Accumulated amortisation & impairment	(1,846)	(2,442)	(8,868)	(9,169)	–	(22,325)
Net book value	**1,294**	**535**	**602**	**5,646**	**926**	**9,003**
Year ended 31 March 2021						
Opening net book value	1,294	535	602	5,646	926	9,003
Foreign exchange differences	–	(25)	(27)	(175)	–	(227)
Additions	–	–	371	246	265	882
Disposals	–	–	(54)	–	(12)	(66)
Amortisation charge	–	–	(462)	(1,602)	–	(2,064)
Amortisation reversal on disposals	–	–	56	–	–	56
Transfers	–	–	33	117	(150)	–
Closing net book amounts	**1,294**	**510**	**519**	**4,232**	**1,029**	**7,584**

	Goodwill $000s	Patents $000s	Software $000s	Product development $000s	Assests under construction $000s	Total $000s
At 31 March 2021						
Cost	3,140	2,952	9,793	15,003	1,029	31,917
Accumulated amortisation & impairment	(1,846)	(2,442)	(9,274)	(10,771)	–	(24,333)
Net book value	**1,294**	**510**	**519**	**4,232**	**1,029**	**7,584**
Year ended 31 March 2022						
Opening net book value	1,294	510	519	4,232	1,029	7,584
Foreign exchange differences	–	(22)	(9)	(34)	(1)	(66)
Additions	–	–	238	97	1,373	1,708
Disposals	–	–	(1,465)	(60)	–	(1,525)
Amortisation charge	–	(2)	(489)	(1,358)	–	(1,849)
Amortisation reversal on disposals	–	–	1,400	2	–	1,402
Transfers	–	–	255	683	(938)	–
Transfers to property, plant and equipment	–	–	–	–	(90)	(90)
Closing net book amounts	**1,294**	**486**	**449**	**3,562**	**1,373**	**7,164**
At 31 March 2022						
Cost	3,140	2,930	8,812	15,689	1,373	31,944
Accumulated amortisation & impairment	(1,846)	(2,444)	(8,363)	(12,127)	–	(24,780)
Net book value	**1,294**	**486**	**449**	**3,562**	**1,373**	**7,164**

c. Software

The Group may design and develop identifiable and unique software products for their use. These are recognised as intangible assets where the capitalisation criteria are met. Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

The Group had previously capitalised costs incurred in configuration or customisation of certain suppliers' application software in certain computing arrangements as intangible assets. Following the publication of the IFRS Interpretations Committee (IFRIC) agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement in March 2021 and ratified by the International Accounting Standards Board (IASB) in April 2021, the Group has adopted the guidance set out in the IFRIC agenda decision, which establishes a process to identify and recognise costs as intangible assets only if the activities create an intangible asset that the Group controls and the intangible asset meets the recognition criteria. Costs that are not capitalised as intangible assets are expensed as incurred unless they are paid to the supplier of the cloud-based software to significantly customise the cloud-based software in which case the cost paid upfront is recorded as a prepayment for services and amortised over the expected term of the cloud computing arrangements.

As a result, the Group has reconsidered its accounting treatment in relation to the capitalisation of software implementation costs relating to Software-as-a-Service arrangements and changed its accounting policy. The Group has determined and subsequently derecognised certain software implementation costs that should have been expensed when they were incurred as no separate intangible assets controlled by the Group were created. The impact of the change did not have a material effect on the Group's financial statements.

d. Product development

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised based on significant judgement if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Other development expenditure is recognised in the Statement of Comprehensive Income as an expense when incurred.

Total capitalised development costs are $4.7m (2021: $5.0m) at balance date, made up of product development assets and assets under construction. During the year, specific product development projects and projects in progress were reviewed for recoverability based on the expected cash flows to be generated by the projects. The expected cash flows supported the carrying values and no impairment was recorded.

The Group estimates the useful life of the new product development assets based on the significant judgement of the technical advancements of such assets and experiences with similar assets. The actual useful life may be shorter or longer depending on technical innovations and competitor actions.

e. Impairment tests for goodwill and the cash generating units (CGUs)

Goodwill is attributed to business units acquired through business combination and represents the excess of the acquisition cost over the fair value of the acquired net assets. Goodwill is allocated to cash-generating units (CGU) and is tested annually for impairment, or more frequently if there is an impairment indicator. The business units are determined to be the CGUs of the Group.

The current balance of goodwill was generated on 2 May 2018, when the Group acquired the remaining 51% of the issued shares it did not own in Centum Rakon India Private Limited, a previously held joint venture. Subsequent to acquisition, the name of the investment was changed to Rakon India Private Limited.

Impairment tests for CGUs within the Group

The carrying amounts of the Group's other non-financial assets are reviewed at each balance date to determine whether there is any indication of impairment. If an indicator of impairment exists, the asset's or CGU's recoverable amount is estimated being the higher of an asset's fair value less costs to sell and the asset's value in use (VIU). An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Accumulated impairment losses on goodwill are not reversed.

As at 31 March 2022, the Group concluded that there were no indicators of impairment relating to the New Zealand, France, India and China CGU, same as the prior year. In making this assessment management and the Directors considered factors including the current profitability of the Group, the market capitalisation value of the Company in comparison to the Group's net asset value and the impact of Covid-19 on the Group's operations (note 2).

Goodwill

The Group has undertaken an impairment review and have concluded that the goodwill is not impaired based on the current and future expected trading performance of Rakon India. The recoverable amount for Rakon India is estimated to be $18.7m (2021: $21.0m) calculated on a VIU basis which exceeds the carrying amount of the CGU at balance date by $1.4m (2021: $5.0m). The calculation uses cash flow forecasts approved by the Board of Directors covering a five-year period. Cash flows beyond the five year period are extrapolated using estimated terminal growth rate which is consistent with the long term average growth rate observed by the Group. Based on the assumptions below no impairment of goodwill has been recognised in the Statement of Comprehensive Income.

The forecasts used in impairment testing require assumptions and judgements about the future which are inherently uncertain. Key assumptions are those to which the model is most sensitive to. No reasonable adverse changes in the key assumptions would result in the carrying amount to exceed the recoverable value.

Key assumptions used in the VIU calculation

2022	Assumption	Range	5 Year CAGR
India	Annual sales growth rate[1]	6% to 20%	10.0%
	Gross margin %[2]	21% to 28%	n/a

2021	Assumption	Range	5 Year CAGR
India	Annual sales growth rate[1]	5% to 13%	7.9%
	Gross margin %[2]	27% to 31%	n/a

[1] Sales growth – the management has forecasted 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 India operates, future product innovation and estimations of its own share of the market reflective of the quality of its product range and technology advantages.

[2] Gross margin – Management forecasted 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.

Growth Rate and Discount Rate

The pre-tax discount rate used of 22.5% (2021: 22.6%). The terminal value within the VIU assessment has been calculated using a terminal growth rate assumption of 2.5% (2021: 2.5%).

16. Leases

Right-of-use assets and lease liabilities arising from a lease are initially measured at present value by discounting the future lease payments using the interest rate implicit to the lease. Where it is difficult to determine the implicit interest rate, the incremental borrowing rate is used. The incremental borrowing rate is determined by using where possible, a recent third-party financing received as a starting point and adjusted for any changes since finance was received. If not, a build-up approach is used where the risk-free interest rate is adjusted for credit risk for leases and specific to the lease terms.

Lease payments are allocated between the principal and finance cost. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group leases various properties, equipment and cars. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The leases do not impose any covenants, and leased assets are not used as security for borrowings.

The Group's lease agreements are for 12 months to 12 years and may have extension options exercisable by the Group. Management applied judgement to determine the lease term for contracts that include renewal options. The lease term assessment may significantly affect the amounts recognised for lease liabilities and right-of-use assets. The Group has considered all facts and circumstances in their decisions relating to lease extension options and have included all extension options for the manufacturing facilities and offices in the calculations. The costs and business disruption were considered significant factors in this decision.

The lease term is reassessed if an option is exercised or terminated. No changes to lease options were recorded in the current year (2021: nil).

The lease assets and liabilities do not include potential future increases in variable lease payments based on an index. The lease liability is reassessed when these increases occur and are adjusted against the right-of-use asset.

The total cash outflow for leases was $2,625,000 (2021: $2,962,000).

a. Right-of-use assets

	Properties $000s	Equipment $000s	Motor vehicle $000s	Total $000s
As at 31 March 2021				
Cost	11,267	920	261	12,448
Accumulated depreciation	(4,296)	(767)	(190)	(5,253)
Net book value	**6,971**	**153**	**71**	**7,195**
Opening net book value	6,971	153	71	7,195
Foreign exchange difference	(204)	81	2	(121)
Additions	144	–	–	144
Disposals	–	(807)	(166)	(973)
Depreciation charge	(2,154)	(217)	(55)	(2,426)
Depreciation reversal on disposals	–	807	166	973
Closing net book value	**4,757**	**17**	**18**	**4,792**
As at 31 March 2022				
Cost	10,734	175	66	10,975
Accumulated depreciation	(5,977)	(158)	(48)	(6,183)
Net book value	**4,757**	**17**	**18**	**4,792**

b. Lease liabilities

	Total $000s
As at 1 April 2021	**7,690**
Movements during the year	
Additions	147
Accertion on interest	365
Payments	(2,625)
Foreign exchange difference	(97)
Closing value	**5,480**

Current and non-current lease liabilities:

	2022 $000s	2021 $000s
Current	2,076	2,272
Non-Current	3,404	5,418
	5,480	**7,690**

In the prior year, under the Covid-19 Related Rent Concessions – Amendment to the NZ IFRS 16 Leases, the Group had recorded rent concessions of $83,000 in other operating income, refer to note 8.

17. Interest in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group's associates are accounted for using the equity method. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the associates in the Statement of Comprehensive Income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Notes to the financial statements (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Set out below is the significant associate of the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The proportion of ownership interest is the same as the proportion of voting rights held.

a. Timemaker Group

The Timemaker Group is the world's largest quartz blank manufacturer and a key supplier to Rakon. The tables below provides summarised financial information for the Timemaker Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associate and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy. The total Timemaker Group is an aggregate of Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited.

The Company is entitled to a seat on the board of Timemaker Group and participates in all significant financial and operating decisions. The Group therefore determined that it has significant influence.

Assets of Shenzhen Taixiang Wafer Co. Limited have been distributed and the company is undergoing voluntary liquidation.

During the year Timemaker issued new shares to the employee share options scheme and to a new investor, resulting in a reduction in Rakon's shareholding and a gain on dilution.

		% of ownership interest				Net Investment		Equity accounted profit	
Name of entity	Country of Incorporation	2022	2021	Nature of relationship	Measurement method	2022 $000s	2021 $000s	2022 $000s	2021 $000s
Chengdu Timemaker Crystal Technology Co. Ltd	China	37%	40%	Associate	Equity method	16,172	11,902		
Shenzhen Taixiang Wafer Co. Ltd	China	37%	40%	Associate	Equity method	–	431		
Total Timemaker Group						16,172	12,333	2,382	1,446

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2022 $000s	2021 $000s	2022 $000s	2021 $000s	2022 $000s	2021 $000s
Summarised Statement of Comprehensive Income						
Revenue	61,785	37,715	–	–	61,785	37,715
Depreciation and amortisation	(3,592)	(2,943)	–	–	(3,592)	(2,943)
Interest expenses	(1,580)	(1,034)	–	–	(1,580)	(1,034)
Profit for the period	**6,168**	**3,615**	**–**	**–**	**6,168**	**3,615**

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2022 $000s	2021 $000s	2022 $000s	2021 $000s	2022 $000s	2021 $000s
Summarised Balance Sheet						
Current assets						
Cash & cash equivalents	9,016	2,326	–	9	9,016	2,335
Other current assets	47,884	33,967	–	1,067	47,884	35,034
Total current assets	**56,900**	**36,293**	**–**	**1,076**	**56,900**	**37,369**
Non–current assets	**34,438**	**27,140**	**–**	**–**	**34,438**	**27,140**
Current liabilities						
Financial liabilities (excluding trade payables)	26,293	16,349	–	–	26,293	16,349
Other current liabilities	19,798	15,617	–	–	19,798	15,617
Total current liabilities	**46,091**	**31,966**	**–**	**–**	**46,091**	**31,966**
Non-current liabilities						
Other non-current liabilities	3,332	1,712	–	–	3,332	1,712
Total non-current liabilities	**3,332**	**1,712**	**–**	**–**	**3,332**	**1,712**
Net assets	**41,915**	**29,755**	**–**	**1,076**	**41,915**	**30,831**

Notes to the financial statements (continued)

	Chengdu Timemaker Crystal Technology Co. Ltd		Shenzhen Taixiang Wafer Co. Ltd		Total Timemaker Group	
	2022 $000s	2021 $000s	2022 $000s	2021 $000s	2022 $000s	2021 $000s
Reconciliation of net assets to carrying amount						
Rakon's share in %	37%	40%	37%	40%	37%	40%
Rakon's share of associate's net assets	15,538	11,902	–	431	15,538	12,333
Investment diluted	634	–	–	–	634	–
Carrying amount	**16,172**	**11,902**	**–**	**431**	**16,172**	**12,333**
Movement in carrying amount						
Opening net assets 1 April					12,333	11,714
Dividend					(156)	–
Equity accounted profit					2,382	1,446
Dilution of sharehloding					634	–
Foreign exchange movement					979	(827)
Carrying amount					**16,172**	**12,333**

18. Financial asset at fair value through other comprehensive income – Thinxtra

Subsequent to losing significant influence in Thinxtra and ceasing equity accounting of the investment on 1 June 2018, the Group elected to present changes in fair value of its investment in other comprehensive income (FVOCI).

The FVOCI are strategic investments which are not held for trading, and which the Group has irrevocably elected the classification at initial recognition, considering this to be more relevant. For assets measured at FVOCI, gains and losses on revaluation are recorded in OCI reserve. On disposal of these equity investments, any related balance within the OCI reserve is reclassified to retained earnings.

a. Thinxtra

Thinxtra Pty Limited (Thinxtra) is an 'Internet of Things' (IoT) business that started in 2016. Thinxtra's focus is on establishing an IoT network in Australia, New Zealand and Hong Kong and providing products, services and solutions enabling connectivity of devices to the network. Thinxtra's business model is based on subscription for access to the network, platform solutions and the sale of IoT products. Further information is available at www.thinxtra.com.

Rakon was one of the founding members of Thinxtra in 2016, and has a 7.0% ownership interest at 31 March 2022 (March 2021: 6.9%). This is calculated on a fully diluted basis including the exercise of any existing options.

The Directors have reviewed the information and observations available and confirm a valuation of A$2.5m or A$3.16 per share as at 31 March 2022 (31 March 2021: A$2.8m).

b. Valuation of the investment in Thinxtra at 31 March 2022

It is recognised that there is a high level of volatility and judgement required in valuing Thinxtra given its early stage of business; the new and developing IoT market and ecosystem in which it operates; the volatility in prices achieved by historic capital raises, it being a private company investment not actively traded; and the track record of the Company in achieving its forecast performance. The Directors recognise there is a high risk of the valuation will change significantly over time and have chosen to adopt this consistent overall methodology for the valuations reported at since 31 March 2019.

In forming the Directors' judgement, the Directors have taken into consideration whether there is an active market in Thinxtra as indicated by the last capital raise in February 2020 for A$9m, which concluded in August 2020 with an additional subscription of A$1m. The Directors concluded that there is not. If there is an active market, the fair value would be considered to be the recent share issue price as the investment would be treated as a Level 1 investment under the fair value hierarchy (refer to scenarios below).

The Directors reviewed the available information to date including Thinxtra's audited financial statements for the year ended 30 June 2021 and other shareholder communications. Weightings have been adjusted to recognise that forecasts were not fully met in the latest financial statements.

Valuation methodology and key inputs

In undertaking the fair value assessment, given the range of potential outcomes, it was considered that one single valuation method would not provide an appropriate result. Accordingly, the Directors have used a range of valuation techniques which provide different scenario outcomes. These outcomes have then been assigned a weighting based on the available information and Directors' judgement. The methodology, key inputs and overall outcome is summarised as follows:

	Weighting Assigned	
Valuation Technique	**2022**	**2021**
A: Discounted cash flow (discount rate 15%)	20%	30%
B: February 2020 capital raise of A$9m at A$2.29 per share	80%	70%

The valuation was based on Rakon having a 7.0% shareholding which assumed any existing share options were exercised and all shares were issued under the capital raise offer that was open. No weighting was assigned to the additional A$1m raised as an extension of the February 2020 capital raise.

The resultant valuation of A$3.16 per share is adopted in the 31 March 2022 financial statements (2021: A$3.57).

Scenario	Assumptions changes	Valuation NZ$m	change
a) Base case valuation	Base case	2.7	
b) Discounted cash flow	Cash flow is 50% lower than forecast	2.1	(0.6)
c) Discounted cash flow	Discount rate is 1% higher (ie 16%)	2.5	(0.2)

Sensitivities on key inputs

The Directors recognise that the valuation outcomes under each technique are dependent on assumptions used. The following table provides an analysis of the impact on the final valuation where key assumptions are changed:

Sensitivities on probability weightings assigned

The Directors recognise that the final valuation is dependent on weightings assigned to each scenario/ valuation technique combination. The following table provides an analysis of the impact on the final valuation where the weightings are changed.

Valuation Technique	Base case	Alternate case A	Alternate case B
Discounted cash flow	20%	70%	0%
A$9m capital raise	80%	30%	100%
	100%	100%	100%
Valuation NZ$m	2.7	4.5	1.9
change in valn NZ$m		+1.8	-0.7

To provide an indication about the reliability of the inputs used in determining fair value, the Directors classified the fair valuation of Thinxtra investment as a level 3 investment. Instruments are classified as level 3 only if one or more of the significant inputs for the valuation is not based on observable market data.

19. Borrowings

The borrowings are initially recognised at fair value and subsequently measured at amortised cost. Fees paid are recognised in the Statement of Comprehensive Income when the draw down occurs. Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Notes to the financial statements (continued)

The Group is reliant on its bank facilities and equity as the principal sources of capital management. The ability of the Group to remain in compliance with its banking covenants has been considered by the Directors in the adoption of the going concern assumption during the preparation of these financial statements.

a. Line of credits

The Group maintains following line of credits.

	2022 $000s	2021 $000s
Current		
French Government loan	1,179	5,894
Other borrowings	118	539
Current borrowings	**1,297**	**6,433**
Bank overdrafts	–	3,599
Total current borrowings	**1,297**	**10,032**
Non-current		
Tanarra loan	10,000	–
French Government loan	4,412	–
Other borrowings	272	–
Non-current borrowings	**14,684**	**–**

b. Tanarra

On 30 April 2021, a $20m New Zealand Dollars debt facility was agreed with Tanarra Credit Partners. An initial $10m was drawn down immediately and used to repay the existing ASB Bank working capital facility which was reduced to nil. The debt facility is repayable at the end of five years and is secured by a general security deed over all the present and after-acquired property of the guaranteeing group comprising Rakon Limited, Rakon Financial Services Limited and Rakon International Limited.

Rakon has agreed to certain conditions in relation to other indebtedness, financial accommodation and distributions. The financial covenants include debt to total tangible assets, net debt to Underlying EBITDA and cash available for debt servicing to interest. The interest rate is based on the New Zealand bank bill reference rate, margin and line fees as applicable.

During the year the Company operated within its required financial covenants.

c. State Bank of India

Rakon India has an existing facility with the State Bank of India including ₹150m (NZ$3.2m) which can be used for cash based working capital requirements, unchanged from the prior year.

d. Crédit Agricole Provence Côte D'Azur

The bank borrowings include a €3.5m French government backed loan that was made available to Rakon France (2021: €3.5m). In May 2021, the Company exercised its option to extend this loan for a further five years. Repayment of the loan is spread equally over the final four years to June 2026. The effective interest rate is 1.24% for the remaining term of five years. There are no covenants on the loan and no additional security is required.

e. ASB

At 31 March 2021 a $6.7m combined trade facility and a $3.3m overdraft was in place. The facility was ended upon receipt of the Tanarra debt facility.

f. Borrowings balance

Refer to note 26 for the exposure of the Group's bank borrowings to interest rate changes and the contractual re-pricing dates at the balance date.

g. Borrowings costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. The Group did not have any capitalised borrowing costs. Other borrowing costs are expensed in the period in which they incur, refer note 10.

h. Net debt reconciliation

	Other asset	Liabilities from financing activities		
	Cash/bank overdraft $000s	Borrowings $000s	Leases $000s	Total $000s
Balance as at 1 April 2020	**(7,762)**	**(145)**	**(9,445)**	**(17,352)**
Cash flows to (increase)/reduce liabilities	18,471	–	2,962	21,433
Acquisitions	–	(6,450)	(531)	(6,981)
Foreign exchange changes	765	162	401	1,328
Interest on lease liabilities	–	–	(1,077)	(1,077)
Balance as at 31 March 2021	**11,474**	**(6,433)**	**(7,690)**	**(2,649)**
Cash flows to reduce liabilities	27,444	–	2,625	30,069
Acquisitions	–	(10,000)	(147)	(10,147)
Foreign exchange changes	311	452	97	860
Interest on lease liabilities	–	–	(365)	(365)
Balance as at 31 March 2022	**39,229**	**(15,981)**	**(5,480)**	**17,768**

20. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period, which are unpaid. The carrying amounts are considered to be the same as fair values, due to their short-term nature. The trade payables are unsecured and are usually paid within 60 days of recognition. Employee entitlements are liabilities for wages and salaries, and annual leave in respect to employees' services up to the reporting date expected to be settled within 12 months of the reporting date.

	2022 $000s	2021 $000s
Trade payables	17,215	11,207
Amounts due to related parties (note 29)	4,034	890
Employee entitlements	10,591	10,737
Accrued expenses	4,168	3,192
Total trade and other payables	**36,008**	**26,026**

21. Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits, which can be reliably estimated, will be required to settle the obligation. The carrying value is the best estimate of the management. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

	Retirement provisions $000s	Long service leave $000s	Lease make good $000s	Total $000s
At 31 March 2020	**2,431**	**518**	**683**	**3,632**
Charged to the Statement of Comprehensive Income				
Additional provisions recognised	200	150	–	350
Unwinding of discount	–	–	16	16
Unused amount reversed	–	(12)	–	(12)
Used during the year	(132)	(168)	–	(300)
Foreign exchange	(222)	–	–	(222)
At 31 March 2021	**2,277**	**488**	**699**	**3,464**
Charged to the Statement of Comprehensive Income				
Additional provisions recognised	325	274	–	599
Unwinding of discount	–	–	16	16
Unused amount reversed	–	(48)	–	(48)
Used during the year	(404)	(72)	–	(476)
Foreign exchange	(107)	–	–	(107)
At 31 March 2022	**2,091**	**642**	**715**	**3,448**
Current portion	389	242	–	631
Non-current portion	1,702	400	715	2,817
Total provisions	**2,091**	**642**	**715**	**3,448**

a. Retirement provision

The Group's net obligation in respect of the French retirement indemnity plan is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The French retirement indemnity plan entitles permanent French employees to a lump sum on retirement. The payment is dependent on an employee's final salary and the number of years of service rendered.

French employees are entitled to a retirement pay-out once they have met specific criteria. This is a one-off payment based on service time at retirement date. A provision has been created to recognise this cost taking in consideration the time served, probability of attainment and discount rates. An actuarial valuation was performed at 31 March 2022.

b. Long service leave

The Group's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

New Zealand employees are entitled to long service leave after the completion of 10 years of continuous service, in the form of special holidays and allowance. A provision has been created to recognise this cost, taking into consideration the time served, probability of attainment and discount rates.

c. Lease make good

The Company is required to restore the leased premises at Mt Wellington, Auckland, New Zealand and Bengaluru, India to their original condition at the end of the respective lease terms. A provision is recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the lease terms.

22. Taxation

The Group is subject to income taxes in several jurisdictions. Judgement is required in determining the worldwide provision for income taxes and recognition of deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the financial statements (continued)

The current and deferred tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Statement of Other Comprehensive Income (OCI), or directly in equity. In this case, the tax is recognised in the OCI or equity, respectively.

a. Income tax expense

Income tax expense is calculated on applicable income tax rate for each jurisdiction, and adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and adjustments relating to the prior period.

	2022 $000s	2021 $000s
Current tax	(3,738)	(1,594)
Deferred tax expense	(5,041)	67
Income tax expense	**(8,779)**	**(1,527)**

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.

Reconciliation of income tax expense	2022 $000s	2021 $000s
Profit before tax	41,890	11,165
Tax calculated at domestic tax rates applicable to profits in the respective countries	(10,950)	(2,312)
Non-deductibles	(99)	26
Expenses deductible for tax purposes	2,343	–
Prior year adjustment	(370)	(253)
Associate result reported net of tax	496	238
Change in deferred tax rate	(109)	–
Recognition and utilisation of previously unrecognised tax losses	–	2,800
Tax losses for which no deferred income tax asset was recognised	(90)	(2,026)
Income tax expense	**(8,779)**	**(1,527)**

The weighted average applicable tax rate was 21% (2021: 14%).

b. Deferred tax

Deferred tax is recognised using the liability method on the temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets are recognised only if management is certain that the future benefits of the taxable amount will be utilised. Judgement is required when deferred tax assets are reviewed at each reporting date. The management uses future forecasts to ascertain future benefits of deferred tax assets.

	Property plant and equipment $000s	Employee benefits $000s	Other[1] $000s	Future income tax benefit $000s	Total $000s
At 31 March 2020	**(422)**	**661**	**6,319**	**2,502**	**9,060**
(Charged)/credited to profit or loss	154	588	(731)	56	67
Losses transferred to subsidiaries	–	–	–	(37)	(37)
Charged to equity	–	–	(2,745)	–	(2,745)
Foreign exchange difference	(5)	–	(74)	–	(79)
At 31 March 2021	**(273)**	**1,249**	**2,769**	**2,521**	**6,266**
(Charged)/credited to profit or loss	(328)	231	(2,342)	(2,602)	(5,041)
Charged to equity	–	–	398	–	398
Foreign exchange difference	(10)	–	21	81	92
At 31 March 2022	**(611)**	**1,480**	**846**	**–**	**1,715**

[1] Includes deferred tax arising from financial instruments (cash flow hedges) and inventory provisioning.

In the prior year, the Company had recorded the remaining balance of unrecognised tax losses amounting to $10,896,000.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same taxation authority.

	2022 $000s	2021 $000s
Deferred tax assets	1,806	6,398
Deferred tax liabilities	(91)	(132)
Net deferred tax asset	**1,715**	**6,266**

c. Imputation balances

Imputation credit account with Inland Revenue.

	2022 $000s	2021 $000s
Imputation credit available for use in subsequent periods	13,269	11,205

23. Share capital

Ordinary shares are classified as equity. The holder of the ordinary shares present in a meeting or by proxy is entitled to one vote per share held. The holder is also entitled to participate in dividends, and to share in the proceeds of winding up the Group in proportion to the number of shares held. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

At 31 March 2022 the total number of ordinary shares that were authorised and issued, including treasury shares, is 229,055,272 shares (2021: 229,055,272) made up as follows:

- 226,961,983 are fully paid shares (2021: 226,961,983)
- 321,972 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (2021: 321,972)
- 1,771,317 unpaid ordinary shares were held by Rakon ESOP Trustee Limited for future allocation to participants (2021: 1,771,317)

At 31 March 2022, the share capital remained unchanged at $181,024,000.

24. Earnings per share

Earnings per share is the amount of post-tax profit attributable to each share.

a. Basic

	2022 $000s	2021 $000s
Weighted average number of ordinary shares on issue (000s) (note 23)	226,962	226,962
Continuing operations		
Earnings attributable to equity holders of the Group ($000s)	33,111	9,638
Basic earnings per share (cents per share)	**14.6**	**4.2**

b. Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	2022 $000s	2021 $000s
Weighted average number of ordinary shares on issue (000s) (note 23)	226,962	226,962
Adjustments for dilutive potential ordinary shares (restricted ordinary shares and share options)	1,302	322
Weighted average number of ordinary shares for diluted earnings per share	228,264	227,284
Continuing operations		
Earnings attributable to equity holders of the Group ($000s)	33,111	9,638
Diluted earnings per share (cents per share)	**14.5**	**4.2**

Notes to the financial statements (continued)

25. Other reserves

	Foreign currency translation reserve $000s	Hedging reserve $000s	Share option reserve $000s	OCI[1] revaluation $000s	Total $000s
At 31 March 2020	**(19,243)**	**(5,028)**	**3,064**	**(2,086)**	**(23,293)**
Cash flow hedges					
Fair value gains in year	–	9,461	–	–	9,461
Cost of hedge	–	(105)	–	–	(105)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	–	–	–	203	203
Tax on fair value gains	–	(2,620)	–	–	(2,620)
Transfers to revenue	–	445	–	–	445
Income tax on transfers to revenue	–	(125)	–	–	(125)
Subsidiaries	(3,999)	–	–	–	(3,999)
Associate – Timemaker Group	(827)	–	–	–	(827)
At 31 March 2021	**(24,069)**	**2,028**	**3,064**	**(1,883)**	**(20,860)**
Cash flow hedges					
Fair value loss in year	–	(3,414)	–	–	(3,414)
Cost of hedge	–	(725)	–	–	(725)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	–	–	–	(440)	(440)
Tax on fair value loss	–	1,159	–	–	1,159
Transfers to revenue	–	2,717	–	–	2,717
Income tax on transfers to revenue	–	(761)	–	–	(761)
Subsidiaries	(1,496)	–	–	–	(1,496)
Associate – Timemaker Group	979	–	–	–	979
Long term incentive plan	–	–	108	–	108
At 31 March 2022	**(24,586)**	**1,004**	**3,172**	**(2,323)**	**(22,733)**

[1] OCI – Thinxtra revaluation through other comprehensive income.

a. Foreign currency translation reserve

Recognises exchange differences arising on translation of the foreign controlled entities, as described in note 4. The cumulative amount is reclassified to the Statement of Comprehensive Income when the investment is disposed.

b. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments and the cost of hedging used in cash flow hedges. The cost of hedging is subsequently recognised in the Statement of Comprehensive Income, or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

c. Share option

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested.

d. Financial asset at fair value through other comprehensive income (FVOCI)

The Group has elected to recognise the change in fair value of investment in Thinxtra in other comprehensive income, refer to note 18. These changes are accumulated within the FVOCI reserve, and transferred to retained earnings when investment is derecognised.

26. Financial risk and capital management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit and Risk Committee, which together with the Board, is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risk adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's risk management is predominantly controlled at the head office in New Zealand (Group treasury) under policies approved by the Board. The Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Financial risk management and capital management	Cash and cash equivalents, trade receivables, derivative financial instruments	Aging analysis Credit ratings	Credit limits and terms
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities
Market risk – foreign exchange	Recognised financial assets and liabilities not denominated in Group currency units	Cash flow forecasting Sensitivity analysis	Foreign currency forwards and foreign currency options
Market risk – interest rate	Bank overdraft at variable rates	Sensitivity analysis	Interest rate swaps

a. Derivatives

The Group is exposed to certain risks relating to its ongoing business operations. To mitigate the risks the Group uses derivative financial instruments such as foreign currency forward exchange contracts and foreign currency collar options. These instruments are held for risk and asset management purposes only and not for the purpose of speculation.

In accordance with its wider risk management, it is the Group's strategy to apply cash flow hedge accounting to keep its foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Group to reduce the cash flow fluctuations arising from foreign exchange risk on an instrument or group of instruments, or to hedge mismatches. A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss.

Derivatives and hedge accounting

The Group designates certain derivatives to be part of a hedging relationship. These are classified as cash flow hedges. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group performs a qualitative assessment of effectiveness and maintains hedging documentation which describes the economic relationship, objective and strategy for the hedge transactions. The effectiveness of the hedged relationships are assessed on an ongoing basis.

The fair value changes to the effective portion of the cash flow hedges are recognised (including related tax impacts) through OCI in the cash flow hedge reserve in equity, refer to note 25. The balance of the cash flow hedge reserve in relation to each particular hedge is transferred to the Statement of Comprehensive Income in the period when the hedged item affects Statement of Comprehensive Income. Hedge accounting is discontinued when a hedging instrument expires, is sold, terminated, or when a hedge no longer meets the criteria for hedge accounting.

If the maturity of the hedged item is less than 12 months, the full fair value of a hedging derivative is classified as a current asset or liability, otherwise non-current asset or liability. Derivatives that do not meet the hedge accounting criteria are classified as held for trading for accounting purposes and are accounted for at fair value through profit and loss.

Notes to the financial statements (continued)

The following table sets out the Group's derivative financial instruments in the Balance Sheet.

	2022 Assets $000s	2022 Liabilities $000s	2021 Assets $000s	2021 Liabilities $000s
Forward foreign exchange contracts — cash flow hedges	1,743	574	2,711	39
Forward foreign exchange collar option — cash flow hedges	697	471	397	250
Total derivative financial instruments	**2,440**	**1,045**	**3,108**	**289**
Less: non-current forward foreign exchange — cash flow hedges	1,095	385	587	260
Current derivative financial instruments	**1,345**	**660**	**2,521**	**29**
Financial assets/ liabilities at fair value through profit or loss	201	194	333	–
Total derivative financial instruments	**1,546**	**854**	**2,854**	**29**

Forward foreign exchange contracts

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty. The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 24 months.

Where option contracts are used as the hedging instrument, the Group designates only the intrinsic value. These are recognised in the cash flow hedge reserve within equity. The changes in time value of the options that related to the hedged item are recognised within OCI in the cost of hedging reserve with equity.

When forward contracts are used to hedge, the Group designates full change in fair value of the forward contract as the hedging instrument.

The following table summarises the Group's current hedging instruments.

	2022		2021	
	Foreign currency options	Foreign currency forwards	Foreign currency options	Foreign currency forwards
Notional amount ($000s)	21,520	103,376	18,087	47,569
Maturity date	Apr-22 to Dec-23	Apr-22 to Mar-24	Nov-21 to Jan-23	Apr-21 to Oct-22
Hedge ratio	1:1	1:1	1:1	1:1
Change in intrinsic value of outstanding hedging instruments	87		148	
Weighted average strike rate on outstanding options				
GBP/USD	–		1.32	
NZD/USD	0.677		0.682	
Weighted average contract rate on forwards				
NZD/USD		0.677		0.655
GBP/USD		1.32		1.28
INR/USD		77.27		74.32
JPY/USD		114.73		108.86

b. Credit risk

The Group is exposed to credit risk arising from trade customers, financial instruments (notes 18, 26a), and cash and cash equivalents (note 11). The maximum exposure to credit risk at the end of the period is represented by the carrying value of these financial assets.

The Group has financial assets of trade receivables from sales of inventory that are subject to the expected credit loss model. The Group has established credit policies, and applies the NZ IFRS 9 Financial Instruments simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables, refer to note 12. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less influence.

The Group only deals with institutions with high credit quality for banking and derivative counterparty.

c. Liquidity risk

The Group maintains committed credit facilities to ensure adequate cash is available to meet obligations when due. Management monitors rolling forecasts of the Group's liquidity position on the basis of expected cash flow. Forecasts indicate that the Group operates within its credit facilities.

The following table shows the contractual undiscounted cash flow maturities of financial liabilities, including interest payments and excluding the impact of netting agreements.

31 March 2022	Carrying amount $000s	6 months or less $000s	6 - 12 months $000s	1 - 2 years $000s	2 - 5 years $000s	5 - 10 years $000s
Financial liabilities						
Secured bank loans (note 19)	4,412	(470)	(706)	(1,178)	(2,110)	–
Derivatives (note 26)	1,239	(479)	(375)	(279)	(105)	–
Trade and other payables (note 20)	21,249	(21,249)	–	–	–	–
Other borrowings (note 19)	10,390	(58)	(58)	(123)	(10,151)	–
Lease liabilities (note 16)	5,480	(883)	(949)	(1,597)	(1,916)	(121)
Total financial liabilities	**42,770**	**(23,139)**	**(2,088)**	**(3,177)**	**(14,282)**	**(121)**

31 March 2021	Carrying amount $000s	6 months or less $000s	6 - 12 months $000s	1 - 2 years $000s	2 - 5 years $000s	5 - 10 years $000s
Financial liabilities						
Secured bank loans (note 19)	5,894	(5,900)	–	–	–	–
Derivatives (note 26)	289	(21)	(7)	(261)	–	–
Trade and other payables (note 20)	26,026	(26,026)	–	–	–	–
Other borrowings (note 19)	539	(179)	(49)	(98)	(213)	–
Bank overdraft (note 19)	3,599	(3,695)	–	–	–	–
Lease liabilities (note 16)	7,690	(1,346)	(1,314)	(2,092)	(3,996)	(210)
Total financial liabilities	**44,037**	**(37,167)**	**(1,370)**	**(2,451)**	**(4,209)**	**(210)**

d. Market risk – foreign exchange

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk. The Group enters into derivatives in the ordinary course of business and also incurs financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Board and the Audit and Risk Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in the Statement of Comprehensive Income.

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily New Zealand Dollars (NZD), Sterling Pounds (GBP), Euros (EUR) and Indian Rupees (INR). The currencies in which these sales and purchases transactions are primarily denominated are US Dollars (USD), Japanese Yen (JPY), INR, NZD, GBP and EUR. The Group uses foreign currency forward exchange contracts and collar options to hedge its currency risk. The table below summarises the foreign exchange exposure on the net monetary assets of the Group against its respective functional currency, expressed in NZD.

	USD $000s	EUR $000s	GPB $000s	JPY $000s
31 March 2022	42,833	1,657	122	(1,375)
31 March 2021	27,952	2,149	(72)	(2,053)

Notes to the financial statements (continued)

The following significant exchange rates applied during the year.

	Average rate		Reporting date rate	
	2022	**2021**	**2022**	**2021**
NZD/USD	0.6967	0.6695	0.6947	0.6994
NZD/EUR	0.5994	0.5739	0.6260	0.5939
NZD/GBP	0.5098	0.5112	0.5304	0.5072
NZD/INR	51.8512	49.4536	52.7842	50.8746
NZD/JPY	78.2080	70.8577	85.1000	76.7000

Sensitivity analysis

Underlying exposures

A 10% weakening of the NZD against the following currencies at 31 March would have increased (decreased) equity and profit or loss by the amounts shown below. Based on historical movements, a 10% increase or decrease in the NZD is considered to be a reasonable estimate. This analysis assumes that all other variables, in particular interest rates remain constant. The analysis was performed on the same basis for 2021.

	2022		2021	
	Equity $000s	Profit or loss $000s	Equity $000s	Profit or loss $000s
USD	4,759	4,759	3,106	3,106
EUR	184	184	239	239
GBP	14	14	(8)	(8)
JPY	(153)	(153)	(228)	(228)

A 10% strengthening of the NZD against the above currencies at 31 March would have had the equal but opposite effect, on the basis that all other variables remain constant.

Forward foreign exchange contracts

A 10% weakening of the purchased currencies below against the forward foreign exchange contracts outstanding at 31 March, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2021.

	2022			2021		
	Fair value $000s	Equity $000s	Profit or loss $000s	Fair value $000s	Equity $000s	Profit or loss $000s
Forward foreign exchange contracts – Cash flow hedge						
Net buy NZD sell USD	10,604	(10,604)	–	5,172	(5,172)	–
Net buy GBP sell USD	159	(159)	–	187	(187)	–
Net buy INR sell USD	(201)	201	–	–	–	–
Net buy JPY sell USD	(725)	725	–	72	(72)	–
Forward foreign exchange contracts – held for trading						
Net buy NZD sell USD	(2,761)	(955)	(955)	283	(278)	(278)
Net buy GBP sell USD	(34)	(159)	(48)	42	(60)	(60)
Net buy INR sell USD	65	201	80	8	(80)	(80)
Net buy JPY sell USD	520	725	132	–	–	–

Notes to the financial statements (continued)

e. Market risk – interest rate

The Group adopts a policy to manage its exposure to interest rate risk by considering interest rates swap agreements.

Profile

At 31 March the interest rate profile of the Group's interest bearing financial instruments.

Variable rate instruments	**2022 $000s**	**2021 $000s**
Financial assets (note 11)	39,229	15,073
Financial liabilities (note 19)	(10,000)	(3,599)
Net variable rate instruments	**29,229**	**11,474**
Fixed rate instruments		
Financial liabilities (note 19)	(5,981)	(6,433)
Net fixed rate instruments	**(5,981)**	**(6,433)**

Sensitivity analysis

An increase of 100 basis points in interest rates at 31 March would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis for 2022 was performed on the same basis as 2021.

	2022		**2021**	
	Equity $000s	**Profit or loss $000s**	**Equity $000s**	**Profit or loss $000s**
Variable rate instruments	(100)	(100)	(36)	(36)
Fixed rate instruments	–	–	(5)	(5)

A decrease of 100 basis points in interest rates at 31 March would have the opposite impact to what is shown above.

f. Capital risk management

The Group's objective when managing capital is to maintain its ability to continue as a going concern, meet its debt obligations, maintain an appropriate capital structure that provides flexibility to take advantage of growth opportunities, and manage capital costs. The Group's capital comprises of all components of equity. The Group also maintains borrowings and credit facilities, refer to note 19 for details.

27. Commitments

a. Capital commitments

Capital expenditure contracted for at the balance date but not incurred is $1,600,000 (2021: $721,000).

28. Principal subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The acquisition method of accounting is used to account for business combinations by the Group. They are deconsolidated from the date that control ceases.

All material transactions between subsidiaries or between the parent company and subsidiaries are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the financial statements (continued)

The list of subsidiaries is as follows:

Name of entity	Principal activities	Country of incorporation	Balance date	% interest held by the Group 2022	2021
Rakon America LLC	Marketing support	USA	31-Mar	100	100
Rakon Singapore (Pte) Limited	Marketing support	Singapore	31-Mar	100	100
Rakon Financial Services Limited	Financing	New Zealand	31-Mar	100	100
Rakon International Limited	Marketing support	New Zealand	31-Mar	100	100
Rakon UK Holdings Limited	Holding company	United Kingdom	31-Mar	100	100
Rakon UK Limited	Research and development	United Kingdom	31-Mar	100	100
Rakon France SAS	R&D, manufacturing and sales	France	31-Mar	100	100
Rakon Investment HK Limited	Holding company	Hong Kong	31-Mar	100	100
Rakon Crystal Electronic International Limited	Marketing support	China	31-Mar	100	100
Rakon India Pvt Limited	Manufacturing, R&D and sales	India	31-Mar	100	100
Rakon (Mauritius) Limited	Holding company	Mauritius	31-Mar	–	100
Rakon ESOP Trustee Limited	Share trustee	New Zealand	31-Mar	–	–
Rakon PPS Trustee Limited	Share trustee	New Zealand	31-Mar	–	–

Rakon ESOP Trustee Limited and Rakon PPS Trustee Limited are classified as in-substance subsidiaries and are consolidated into the Group financial statements.

During the year, Rakon (Mauritius) Limited was voluntarily liquidated.

29. Related party transactions

a. Key management personnel compensation

	2022 $000s	2021 $000s
Salaries and other short-term employee benefits	4,854	4,275
Directors' fee	449	318
Total key management compensation	**5,303**	**4,593**

b. Transactions with other related parties

No amounts owed by a related party have been written off or forgiven during the year. Following is the summary of transactions between related parties, and closing receivables and payables balance. All transactions were made on normal commercial terms and condidtions.

	2022 $000s	2021 $000s
Transactions with associates		
Sales to associate, Chengdu Timemaker Crystal Technology Co. Limited	-	42
Purchases from associate, Chengdu Timemaker Crystal Technology Co. Limited	(2,948)	(1,625)
Net transactions	**(2,948)**	**(1,583)**
Payables to Chengdu Timemaker Crystal Technology Co. Limited	(962)	(255)
Receivables from Rakon HK Limited	179	160
Transactions with Siward Crystal Technologies Co. Limited		
Sales	2,143	683
Purchases	(11,579)	(2,003)
Net transactions	**(9,436)**	**(1,320)**
Payables to Siward Crystal Technologies Co. Limited	(3,072)	(635)
Receivables from Siward Crystal Technologies Co. Limited	175	106

30. Share based payments

The Group's management awards qualifying employees' bonuses, in the form of share options and conditional rights to redeemable ordinary shares, from time to time, on a discretionary basis. These are subject to vesting conditions and their fair value is recognised as an employee benefit expense with a corresponding increase in other reserve equity over the vesting period. The fair value determined at grant date excludes the impact of any non-market vesting conditions, such as the requirement to remain in employment with the Group. Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest and the number of redeemable ordinary shares that are expected to transfer.

a. Long term incentive plan

Certain key personnel of the Group, based in New Zealand, receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). Employees working overseas are granted Phantom Share Rights which are settled in cash (cash-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense note 7, together with a corresponding increase in equity (other capital reserves), over the period in which the service conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award that has not yet been recognised as an expense is expensed immediately through profit or loss.

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in profit or loss in employee benefits expense note 7. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a Monte Carlo model. The approach used to account for vesting conditions when measuring equity-settled transactions also applies to cash-settled transactions.

Estimates and judgements

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including market price volatility, risk free rates, liquidity and making assumptions about them. The Group initially measures the cost of cash-settled transactions with employee using a Monte Carlo model to determine the fair value of the liability to be incurred. For cash-settled share-based payment transactions, the liability needs to be re-measured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in profit or loss. This requires a reassessment of the estimates used at the end of each reporting period.

For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses a Monte Carlo model.

Rakon's Long Term Incentive Plan ("LTIP") was established on 13 December 2021. Under the LTIP, Share Rights and Phantom Share Rights of the parent are granted to key management personnel of the parent and certain subsidiaries, respectively. Employees are entitled to shares of the parent and cash payment upon vesting of Share Rights and Phantom Share Rights, respectively. No payment is required to be made by employees to accept the offer or upon receipt of ordinary shares in the parent with respect to any vested Share Rights or upon receipt cash payment with respect to any vested Phantom Share Rights.

Vesting of Share Rights and Phantom Share Rights is dependent on the Group's total shareholder return ("TSR") exceeding the TSR of the NZX50 over the measurement period. Employees must remain in service for a period of 2.5 years from grant date (December 2021).

Share Rights

Key personnel of parent are granted Share Rights. The fair value of Share Rights is estimated at the grant date using a model, taking into account the terms and conditions upon which the Share Rights were granted.

The model simulates the TSR and compares it against the TSR of the NZX50. It takes into account historical and expected dividends, and the share price fluctuation to predict the distribution of relative share performance.

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these Share Rights. The Group accounts for the Share Rights as equity-settled transactions.

Phantom Share Rights

Key personnel of certain overseas subsidiaries are granted Phantom Share Rights, settled in cash. The liability for the Phantom Share Rights is measured initially and at each reporting period until settled, at fair value of the Phantom Share Rights, by applying a Monte Carlo model, taking into account the terms and conditions on which the Phantom Share Rights were granted, and the extent to which the employees have rendered services to date.

The carrying amount of the liability relating to the Phantom Share Rights at 31 March 31, 2021 was $40,000. There were no cancellations or modifications to the awards in 2021. The weighted average fair value of share rights and phantom share rights granted during the year were $1.31 and $1.23, respectively.

The expense recognised for employee services received during the year is shown in the following table:

	2022 $000s	2021 $000s
Expenses arising from equity-settled share-based payment transactions	108	–
Expenses arising from cash-settled share-based payment transactions	40	–
Total expenses arising from share-based payment transactions	**148**	**–**

Movement for the year

	Share rights 2022 $000s	Phantom share rights 2022 $000s
Granted during the year	703	276
Outstanding at 31 March	**703**	**276**

b. Rakon Share Plan

In March 2006, Rakon Limited established a share plan to enable selected employees of Rakon Limited to acquire shares in the Company through the plan trustee, Rakon ESOP Trustee Limited. Under the terms of the share plan, 2,759 ordinary shares were issued at deemed market value at that time to Rakon ESOP Trustee Limited to hold on behalf of the participating employees. Following a share split on 13 April 2006, the resulting number of shares under this plan was 859,137. As at 31 March 2022, balance of shares held was 321,972 (31 March 2021: 321,972). All shares have been allocated and rank equally in all respects with all other ordinary shares issued by the Company. The outstanding loan balance, provided on an interest free basis by Rakon Limited to participating employees in respect of these shares, totals $195,000 (2021: $195,000). A participant may repay all or part of the loan at any time, and may request share transfer upon full repayment. No repayments were due at 31 March 2022 (2021: nil). The Trust Deed makes provision for the Company to require repayment of the loans in certain circumstances. The Company may remove and appoint trustees at any time. The Directors and shareholders of Rakon ESOP Trustee Limited are Keith Oliver and Bruce Irvine. Shares held by the share plan represent approximately 0.14% of the Company's total shares on issue as at balance date (2021: 0.14%).

Notes to the financial statements (continued)

31. Contingencies

Prior to acquisition, Rakon India received income tax and indirect taxes assessments, which had been in dispute. The Directors of Rakon India believe the positions are likely to be upheld and accordingly no provision was made. The below summarises the potential impacts on Rakon India's tax balances if the assessments are upheld.

Income taxes

- 2011/12 – an increase in taxable income of $1.4m (tax value $900,000)
- 2012/13 – an increase in taxable income of $1.8m (tax value $35,000)
- 2013/14 – no increase in taxable income (tax value $520,000)

Indirect taxes

- December 2010/August 2012 – excess input credit availed (tax value $390,000). Penalty applicable at 100% of tax value.

32. Subsequent events

The Directors are not aware of any material events subsequent to the balance date 31 March 2022.

Independent auditor's report

To the shareholders of Rakon Limited

Our opinion

In our opinion, the accompanying financial statements of Rakon Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2022, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the balance sheet as at 31 March 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of providing certification of expenditure for the purpose of the European Union subsidy for community projects in France, providing certification of expenditure for the purposes of the European grants on innovation projects in France, providing certification of expenditure for the purposes of the Production Linked Incentive Scheme in India and providing statutory reporting required in France in respect of capital. The provision of these other services has not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers, 15 Customs Street West, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Description of the key audit matter

Initial recognition and valuation of research and development costs associated with the development of new products

Note 15 of the financial statements provide details of the costs incurred by the Group with respect to developing new products that were capitalised as at 31 March 2022. This is included within the product development and assets under construction categories of the note and amounts to $4.7 million at 31 March 2022.

Note 7 of the financial statements provide details of research and development expenditure in the Statement of Comprehensive Income during the year of $13.8 million.

There is judgement involved in assessing whether the costs that are being capitalised for development meet the criteria for capitalisation as an intangible asset under NZ IAS 38 *Intangible Assets*, or whether they should be expensed.

There is also judgement and often uncertainty around the potential for success of new products as well as the technical feasibility and probable future economic benefits associated with new and existing projects.

Our audit focused on this area due to the value of the capitalised research and development costs balance and the judgement involved in the application of the accounting standards.

The Directors have assessed the future income generating ability of capitalised development expenditure by referring to current demand for the new products in production and to the business case for future sales of products not yet in production.

How our audit addressed the key audit matter

Our procedures included the following:

- Updating our understanding of how the costs for research and development are captured and, where appropriate, are approved for capitalisation and the controls over these processes;
- Obtaining an understanding of the projects which have been capitalised during the year. Costs capitalised during the year ended 31 March 2022, are immaterial for further testing;
- Assessing overall costs capitalised for compliance with Group policies and the requirements defined in NZ IAS 38 for capitalisation of product development costs;
- Testing a sample of expensed research and development costs to ensure accounting treatment is appropriate;
- Challenging the Director’s assessment of the future income expected from products in production, where costs were capitalised and are now being amortised, by comparing the future sales estimate with the level of sales currently being achieved; and
- Updating our understanding of the status of products which are not yet in production including the future income expected from these products. The carrying value of these products as at 31 March 2022 is immaterial for further testing.

We have no matters to report as a result of our procedures.

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Description of the key audit matter

Valuation of the investment in Thinxtra

The carrying value of the Group's investment in Thinxtra Limited (Thinxtra) is A$2.5 million ($2.7 million) as at 31 March 2022, reducing by $0.4 million in the current year.

Consistent with the prior year, the Directors used a range of valuation techniques with assigned weightings. The techniques applied include discounted cash flows and the share price of the last successful capital raise. Weightings were assigned to each technique based on the Directors' available information and judgement.

Based on the information available to the Directors, Thinxtra's performance is below the forecast provided by Thinxtra. The valuation techniques and weightings have been adjusted by management in the current financial year to recognise that forecasts by Thinxtra have not been fully met in the latest financial statements.

The Directors also considered sensitivity of the key inputs in the valuation by determining other reasonably possible scenarios and assessing its impact on the valuation.

The results of the Directors' assessment and sensitivity analysis is disclosed in note 18 to the financial statements.

We considered the valuation of the investment in Thinxtra a key audit matter because of the uncertainty involved in the estimation process and the significant judgements the Directors made in determining fair value. Changes in the assumptions applied as part of the estimation process can lead to significant movements in the fair value of the investment.

How our audit addressed the key audit matter

Our procedures in relation to the fair value determination of the investment in Thinxtra included the following:

- Obtaining an understanding of, and evaluating, Rakon's processes and controls relating to the valuation of the investment in Thinxtra;
- Obtaining an understanding of the valuation techniques used by the Directors and the key assumptions applied in determining the fair value of the investment in Thinxtra as at 31 March 2022;
- Comparing the discounted cash flow model to the prior year and reconfirming its mathematical accuracy. The model agrees to the Information Memorandum issued by Thinxtra in 2020;
- Considering the discounted cash flow model which formed part of the Director's basis of valuation. Consistent with the prior year, we determined the underlying forecasts used in the model continue to be unreliable due to Thinxtra's history of not meeting budgeted results. Accordingly, we have not assigned any weighting to this when considering our valuation approach;
- Our valuation approach considered all information available to the Directors. We determined that there can be a wide valuation range attributable to this investment, however, based on its Level 3 nature and the limited information available to the Directors, we concluded that the observable inputs from the most recent capital raise in February 2020, which was extended in August 2020, continues to represent the best evidence of the fair value as at 31 March 2022. This results in a lower fair value than that determined by the Directors;
- The difference between the Directors' assessment of fair value and our valuation, was reported to the Directors who determined that this judgemental difference was not material in the context of the financial statements. This difference is below our overall Group materiality;
- Engaging our valuation expert to review our valuation approach to ensure all economic factors have been considered and appropriate conclusions were reached; and
- Assessing the adequacy of disclosures in the financial statements to ensure that this is compliant with the requirements of NZ IFRS.

Our audit approach

Overview

Overall group materiality: $1,700,000, which represents approximately 1% of total revenues.

We chose total revenues as the benchmark because, in our view, revenue provides a more stable measure for establishing our materiality benchmark and best reflects performance of the Group.

Following our assessment of the risk of material misstatement, we:

- Performed full scope audits for the two principal businesses in New Zealand and France based on their financial significance;
- Performed specified procedures and analytical review procedures over the business unit in India;
- Specified audit procedures over the business in the UK; and
- Analytical review procedures were performed on the investment in Timemaker and all other remaining entities.

As reported above, we have two key audit matters, being:

- Initial recognition and valuation of research and development costs associated with the development of new products
- Valuation of the investment in Thinxtra

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Indumin Senaratne (Indy Sena).

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants

25 May 2022 Auckland

Remuneration report

Remuneration

Oversight of policy and processes in relation to the remuneration of Directors and executives is a key responsibility of the People Committee.

Director Remuneration

The total remuneration available for Directors is approved by shareholders. The Board determines the level of remuneration paid to Directors from the approved collective pool. Directors are also reimbursed for reasonable travelling, accommodation and other expenses incurred in the course of performing their duties.

In accordance with Listing Rule 2.11.1(a), the total annual fees pool increased from $360,000 to $460,000 with effect from 1 October 2021 following approval by shareholders of new levels of director fees at the 2021 Annual Shareholders' Meeting. The new annual fees pool allows for an increase to the rate paid to ordinary directors, an increase to the rate payable to the Chair, an allowance recognising the additional work undertaken by the chairs of the Audit and Risk Committee and the People Committee and for a small pool from which the Board may approve payment to directors who have undertaken significant additional work.

In the course of FY22, the Board undertook a Board succession programme resulting in the appointment of two new directors before long-term Director and Chair, Bruce Irvine, announced his resignation with effect from 1 April 2022. The decision of the Board to increase its number to seven means, with effect from 1 April 2022, the total annual fees pool is $530,000. The additional Director is paid at the same annual rate as the approved rate for other ordinary Directors.

ROLE	DIRECTORS' FEES from 1/10/2021)
Chair	$140,000
Non-executive Director	$70,000
Chair of Audit & Risk Committee	$12,000
Chair of People Committee	$8,000
Provision for additional work if required	$20,000
Total Fees Pool based on six Directors	$460,000
Total Fees Pool based on seven Directors	$530,000

The key corporate governance documents, charters and policies referred to in this report are available on Rakon's website at: www.rakon/investors/corporate-governance

Any future proposed increases in the level of non-executive Directors' fees will also be put to shareholders for approval. When the Board seeks advice in relation to Directors' remuneration, the consultants are required to declare their independence. If the Board elects to state publicly that it is relying on such advice in respect of its remuneration proposal, a summary of the findings will be disclosed to shareholders as part of the approval process.

Rakon's Remuneration (Directors and Executives) Policy recognises that investors have a particular interest in director and executive remuneration and that the remuneration of directors and executives should be transparent, fair and reasonable. The policy outlines the framework within which Rakon determines remuneration for its Directors and executives.

Rakon applies a fair and equitable approach to remuneration having regard to the financial position of the company and the external environment.

The Remuneration (Directors and Executives) Policy records that Rakon and its People Committee may obtain independent advice and relevant market data and benchmarking in New Zealand and other regions in which it operates from appropriately qualified consultants to assist in setting remuneration for its executives, Chief Executive and Directors. External advice is sought on a regular basis to ensure remuneration is benchmarked to the market.

Details of individual Directors' remuneration for the year ended 31 March 2022 are set out in the table below:

Director Remuneration Paid

Director	Fees paid
Bruce Irvine (Board Chair)	$130,000
Lorraine Witten (Chair of Audit & Risk Committee)	$71,000
Brent Robinson[1]	$899,700
Keith Oliver (Chair of People Committee)	$69,000
Keith Watson	$65,000
Yin Tang (Tony) Tseng	$65,825
Steve Tucker[2]	$35,000
Sinead Horgan[3]	$13,009

[1] Employed as Managing Director and Chief Executive Officer until 31 March 2022, received salary and other benefits and did not receive any director fees .
[2] Appointed to the Board with effect from 1 October 2021 [3] Appointed to the Board with effect from 25 January 2022.

Directors fees detailed exclude both GST and reimbursed costs directly associated with carrying out their duties.

Remuneration

Executive remuneration

In general, executive and senior management remuneration comprises of a fixed base salary and an at-risk portion being a percentage of executives' fixed remuneration determined annually. Some executives also receive fringe benefits. Some executives have been invited to participate in a long term incentive plan.

Performance targets for at-risk incentives are set at the commencement of the period and are generally based on financial measures including company earnings targets, progress against objectives related to the strategic plan, business unit objectives and personal objectives.

Short term incentives (**STI**) linked to company objectives are agreed with the Board and achievement and payment is determined at the discretion of the Board with achievement measured against company performance metrics and criteria based on company priorities. The Chief Executive Officer is responsible for agreeing and assessing achievement of his direct reports' personal objectives.

LTI Plan

In December 2021 Rakon implemented a Long Term Incentive Plan (**LTI Plan**) for key employees including some members of the executive team. The LTI Plan is designed to promote the retention of key employees across Rakon's global team and drive longer-term performance and alignment of incentives with the interests of the company's shareholders.

Under the rules of the LTI Plan, the Board will issue a number of share rights or phantom share rights to selected key employees of Rakon; determined by dividing the gross value of the grant by the value of one Rakon share at the calculation date. Phantom share rights may be offered at the Board's discretion to key employees based outside New Zealand or where additional regulatory requirements would apply to their receipt of shares.

The performance hurdle for the LTI Plan offer made in 2021 is dependent upon Rakon achieving a higher Total Shareholder Return (TSR) (TSR measures share price movement and dividends and other distributions) over a three year vesting period relative to the TSR of companies within the NZX50 Index.
In order to meet the performance hurdle and satisfy that vesting condition, the percentage change in the TSR of Rakon over the vesting period must be greater than the percentage change in the NZX50 Index over the same period. To minimise the impact of short term price volatility, TSR for Rakon as at the vesting period commencement date and the vesting date is calculated using the volume weighted average price (**VWAP**) of Rakon shares calculated from trades through the NZX Main Board over the 20 trading days up to and including the date on which the relevant calculation is made.

The Board has discretion in relation to determining whether the vesting conditions have been satisfied including reserving the right to adjust calculations relating to the calculation of TSR of Rakon or the NZX50 to take account of any capital reconstructions, corporate transactions, changes to the composition of the NZX50 or other circumstances which in its opinion are appropriate in the circumstances and consistent with the intention of the performance hurdle.

At vesting, subject to meeting the performance hurdles set at the time of the grant, each share right is converted to one ordinary share or the equivalent value in cash where the key employee has been issued phantom share rights.

The employee is liable for tax on any shares or cash received. Under the LTI Plan which is subject to the discretion of the Board, grants of share rights or phantom rights will continue to be made annually with performance measured over a three-year period.

The value of the grant to each key employee for the 2021 LTI Plan was set at a percentage of fixed annual remuneration which was determined by reference to weighting criteria applied to each key employee including a range of metrics for leadership, expertise, experience industry and future potential.

CEO remuneration

The review and approval of the Chief Executive Officer's remuneration is the responsibility of the People Committee and the Board.

External advice is sought on the remuneration of the Chief Executive Officer.

For the year ended 31 March 2022 Brent Robinson's remuneration for his role as the Chief Executive Officer comprised a fixed base salary, fringe benefits, and an at-risk STI. The Chief Executive Officer's STI for FY22 was set at 30% of Base Salary with performance measures linked 50% to achievement of certain company performance targets for earnings and progress against objectives related to the strategic plan and linked 50% to achievement of certain personal objectives. The Chief Executive Officer's performance is assessed by the Board and payment of at-risk incentives is at the discretion of the Board.

Remuneration

The remuneration detailed in the table below relates to payments made to Chief Executive Officer Brent Robinson in the year ended 31 March 2022 (FY22) and does not include any STI payments in relation to FY22 performance to be determined and paid in the 2023 financial year (FY23). Brent Robinson did not participate in the 2021 LTI Plan.

Actual Payments made to CEO in FY2022

				At risk incentive for previous year		
	Base salary payments	Benefits	subtotal	STI	% STI achieved	Total renumeration
FY2022	$675,349	$33,101	$708,450	$191,250	94%	$899,700
FY2021	$648,112	$32,682	$680,794	$86,063	45%	$766,857

CEO Salary Last five years

The following table records the payments made to the Chief Executive as reported in each of the previous five years listed. In each case the STI payment recorded relates to assessment of performance in the prior year.

Financial Year Ended 31 March	Base remuneration & benefits	Short term Incentive
2017	$656,053	–
2018	$652,402	$73,500
2019	$668,202	$147,000
2020	$671,956	$165,376
2021	$680,794	$86,063

CEO salary for FY23

For the year beginning 1 April 2022 Sinan Altug's remuneration for his role as Chief Executive Officer comprises Fixed Annual Remuneration made up of Base Salary plus benefits (including medical insurance) and a STI set at 30% of Base Salary. STI performance measures are linked to both company and personal performance objectives. Sinan Altug is also a participant in the 2021 LTI Plan which has a vesting date in June 2024.

Employees' remuneration

During the year ended 31 March 2022, the number of employees or former employees of Rakon Limited and its subsidiaries, not being Directors of Rakon Limited received remuneration including the value of other benefits in excess of $100,000 in the following bands:

Remuneration	Number of employees
$100,000 – $110,000	13
$100,001 – $120,000	17
$120,001 – $130,000	6
$130,001 – $140,000	16
$140,001 – $150,000	8
$150,001 – $160,000	11
$160,001 – $170,000	6
$170,001 – $180,000	7
$180,001 – $190,000	7
$190,001 – $200,000	4
$200,001 – $210,000	5
$210,001 – $220,000	4
$220,001 – $230,000	5
$230,001 – $240,000	3
$240,001 – $250,000	2
$250,001 – $260,000	3

Remuneration	Number of employees
$260,001 – $270,000	2
$270,001 – $280,000	2
$280,001 – $290,000	1
$290,001 – $300,000	2
$300,001 – $310,000	1
$310,001 – $320,000	1
$320,001 – $330,000	1
$340,001 – $350,000	1
$350,001 – $360,000	1
$360,001 – $370,000	1
$380,001 – $390,000	1
$390,001 – $400,000	1
$440,001 – $450,000	1
$470,001 – $480,000	1
$520,001 – $530,000	1
$700,001 – $710,000	1
$710,001 – $720,000	1

Total employees earning $100,000+	137

Shareholder information

Directors of subsidiaries

Directors of the company's subsidiaries do not receive any remuneration or other benefits in respect of their appointments. The remuneration and other benefits of any such Directors (not being Directors of Rakon Limited) who are employees of the Group totalling $100,000 or more during the year ended 31 March 2022 are included in the relevant bandings for remuneration disclosed in the Remuneration Information section of the 2022 Annual Report.

The following people held office as Directors of subsidiary companies at 31 March 2022:

Entity	Director (or authorised representative where noted)
Rakon America LLC	John Mundschau (authorised representative)
Rakon Singapore (Pte) Limited	Brent Robinson, Darren Robinson, Aloysius Wee
Rakon Financial Services Limited	Brent Robinson, Darren Robinson
Rakon International Limited	Brent Robinson
Rakon UK Holdings Limited	Brent Robinson, Darren Robinson, Sinan Altug
Rakon UK Limited	Brent Robinson, Darren Robinson, Sinan Altug
Rakon France SAS	Brent Robinson
Rakon (Mauritius) Limited	Brent Robinson, Darren Robinson, Neernaysingh Madhour, Kamalam Pillay Rungapadiachy
Rakon Investment HK Limited	Brent Robinson
Rakon Crystal Electronic International Limited	Daryoush Shahidi (authorised representative)
Rakon HK Limited	Brent Robinson, Darren Robinson, Zhuzhi Ye, Rongguo Chen
Rakon ESOP Trustee Limited	Bruce Irvine, Keith Oliver
Rakon PPS Trustee Limited	Bruce Irvine, Keith Oliver
Rakon India (Private) Limited	Brent Robinson, P.M. Unnikrishnan, Arun Parasnis

Directors' interests entries

As permitted by the Companies Act 1993 and the company's constitution, all Directors received the benefit of an indemnity from Rakon Limited and the benefit of Directors and Officers liability insurance cover maintained by the company.

The company maintains an interests' register in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013. The following are particulars of entries, including the date of disclosure shown in brackets, made in the Directors' interests' register for the year ended 31 March 2022.

Bruce Irvine

Ceased as Director and Chair of Rakon Limited from 1 April 2022 (March 2022)

Keith Oliver

Appointed Director of vWork Limited (September 2021)

Lorraine Witten

Appointed Chair of Move Logistics Group Limited (September 2021)

Appointed Chair of Rakon Limited from 1 April 2022 (March 2022)

Steve Tucker

Appointed as Director of Rakon Limited (October 2021)

Director and Chair of Gallagher Holdings Limited (October 2021)

Director and Chair of Goodnature Limited (October 2021)

Director of 5th Element Limited and subsidiary Taska Prosthetics Limited (October 2021)

Director of HJ Asmuss & Co Limited (October 2021)

Chair of Caprine Innovations NZ Programme MPI Primary Growth Partnership with NZ Dairy Goat Co-operative (October 2021)

Independent Director of Purpose Capital Impact Fund (October 2021)

Sinead Horgan

Appointed as a Director of Rakon Limited (January 2022)

Director and Chair of Audit and Risk Committee Eco Central Limited (January 2022)

Director and Chair of Audit and Risk Committee FMG (January 2022)

Director and Chair of Audit and Risk Committee Bank of China NZ (January 2022)

Trustee and Chair Assistance Dogs New Zealand Trust (January 2022)

Director Taggart Earthmoving Limited (January 2022)

Director and Owner Morrison Horgan (January 2022)

Brent Robinson

Ceased as Managing Director and continues as Executive Director of Rakon Limited from 1 April 2022 (December 2021).

Shareholder information

Directors' shareholdings

Directors' shareholdings in Rakon Limited as recorded in the interests' register of the Company as at 31 March 2022 are set out below:

Name	Category	Shareholding
Brent Robinson	shares held with beneficial interest	34,846,237
Bruce Irvine	shares held with beneficial interest	454,278
Bruce Irvine	shares held with non-beneficial interest[1]	2,093,299
Bruce Irvine	shares held by associated person	289,824
Lorraine Witten	shares held with beneficial interest	192,720
Keith Watson	shares held with beneficial interest	100,000
Keith Oliver	shares held with non-beneficial interest[1]	2,093,299
Sinead Horgan	shares held by associated person	950

[1] Bruce Irvine and Keith Oliver jointly hold the same parcel of 2,093,299 ordinary shares as trustees of Rakon ESOP Trustee Limited.

Substantial Quoted Financial Product holders

The following information is given pursuant to Section 293 of the Financial Markets Conduct Act 2013.

According to the notices given under Financial Markets Conduct Act 2013 (or its predecessor the Securities Markets Act 1988), the following persons were substantial product holders in the company as at 31 March 2022 in respect of the number of voting products below. As at 31 March 2022, the company had one share class on issue, comprising of 229,055,272 voting shares:

Name	Relevant Interest	Number Held	%
Siward Crystal Technology Co. Limited	registered holder	28,016,681	12.23
Brent John Robinson	registered holder	9,915,414	4.32
Brent John Robinson	registered holder and beneficial owner	24,930,823	10.88
Darren Paul Robinson	registered holder	9,914,180	4.32
Darren Paul Robinson	registered holder and beneficial owner	24,930,823	10.88
Wairahi Investments Limited	registered holder	12,000,000	5.24

Spread of Quoted Financial Product holders and holdings as at 27 April 2022

Size of Holding	Number of holders	%	Tortal number held	%
1 – 99	39	0.79	1825	0.00
100 – 199	70	1.42	9,093	0.00
200 – 499	243	4.94	73,279	0.03
500 – 999	360	7.32	229,666	0.10
1,000 – 1,999	780	15.87	999,069	0.44
2,000 – 4,999	1230	25.20	3,706,504	1.62
5,000 – 9,999	722	14.69	4,631,357	2.02
10,000 – 49,999	1,133	23.05	22,242,005	9.71
50,000 – 99,999	160	3.25	10,535,075	4.60
100,000 – 499,999	135	2.75	25,667,803	11.21
500,000 – 999,999	12	0.26	13,450,841	5.87
1,000,000 – 99,999,999	28	0.60	147,508,755	64.40
Total	**4,916**	**100.00**	**229,055,272**	**100.00**

Shareholder information

Twenty largest Quoted Financial Product holders as at 27 April 2022

Name	Shareholding	%
Siward Crystal Technology Co. Limited	28,016,681	12.23
Brent John Robinson and Darren Paul Robinson as trustees of Ahuareka Trust	24,930,823	10.88
Wairahi Investments Limited	12,000,000	5.24
Brent John Robinson	9,915,414	4.32
Darren Paul Robinson	9,914,180	4.32
Forsyth Barr Custodians Limited <1-Custody>	7,837,539	3.42
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	6,277,667	2.74
Nicholas Theobald Sibley & Sally Gay Sibley	5,200,000	2.27
Accident Compensation Corporation [1]	5,194,560	2.27
Custodial Services Limited<A/C4>	4,210,637	1.83
Etimes Group International Limited	3,697,716	1.61
Michael Murray Benjamin	3,000,000	1.30
Fergus David Elliott Brown	3,000,000	1.30
F B Trustee Limited	3,000,000	1.30
FNZ Custodians Limited	2,920,351	1.27
Hobson Wealth Custodians Limited <Resident Cash Account>	2,874,908	1.25
Rakon ESOP Trustee Limited	2,093,289	0.91
Forsyth Barr Custodians Limited <Account 1E>	2,036,000	0.88
Phillip Malcolm Cook	1,700,000	0.74
HLR Holdings Company Limited	1,584,736	0.69

[1] Held through New Zealand Central Securities Depository Limited, which is a depository that allows electronic trading of securities by members.

NZX waivers

For the purposes of Rakon’s disclosure obligation under Rule 3.7.1(g) Rakon confirms:

There were no NZX waivers granted or published by NZX within, or relied upon, in the 12 months ending 31 March 2022.

Credit rating

The Company does not currently have an external credit rating status.

Exercise of disciplinary powers

Neither the NZX nor the Financial Market Authority took any disciplinary action against the Company during the financial year ended 31 March 2022.

Directory

Registered Office
Rakon Limited
8 Sylvia Park Road
Mt Wellington
Auckland 1060
New Zealand
Telephone: +64 9 573 5554

Mailing Address
Rakon Limited
Private Bag 99943
Newmarket
Auckland 1149
New Zealand

Directors
Sinead Horgan
Keith Oliver
Brent Robinson
Yin Tang Tseng
Steve Tucker
Lorraine Witten (Chair)
Keith Watson

Principal Lawyers
Bell Gully
PO Box 4199
Shortland Street
Auckland 1140
New Zealand

Auditors
PricewaterhouseCoopers
Private Bag 92162
Auckland 1142
New Zealand

Bankers
ASB Bank
PO Box 35
Shortland Street
Auckland 1140
New Zealand

Share Registrar
Computershare Investor Services Limited
Private Bag 92119
Victoria Street West
Auckland 1142, New Zealand

Managing Your Shareholding Online
To change your address, update your payment instructions or view your investment portfolio, including transactions, please visit:
www.investorcentre.com/nz

General enquiries can be directed to:
enquiry@computershare.co.nz
Telephone: +64 9 488 8777

www.rakon.com