The Future. Connected.

rakon

Management commentary
(no financial statements)

Excited about our future

Rakon's industry leading technologies provide the electronic heartbeat for thousands of systems around the world, and beyond.

Our groundbreaking frequency control and timing products have landed on Mars and are now on course for Jupiter. And back on earth, they are enabling next generation applications in the telecommunications, space and defence, and positioning markets.

Those markets are continuing to grow and we are growing with them. With each milestone accomplished through our growth strategy, we are positioning ourselves for greater steps forward.

We're excited about our future and can't wait to see what's next.

Ultra-stable TCXO not shown to scale, actual size: 7mm x 5mm

Management commentary
(no financial statements)

Good to grow

Delivering on our strategic growth objectives creates long-term value for our shareholders.

Our three-year growth strategy maps the paths for achieving that growth. We've hit our FY23 milestones and are continuing to create resounding value by: growing our core business, maintaining product and technology leadership, expanding into new markets, and delivering world-class manufacturing.

Management commentary
(no financial statements)

Management commentary
(no financial statements)

Born to innovate

Innovation is in Rakon's DNA.
The same innovative spirit that started in a garage in Auckland, New Zealand, over 50 years ago, is now leading the next generation of electronic heartbeats for thousands of applications around the world and beyond.

Our people are the driving force behind Rakon's culture of innovation. Together we pioneer what's next across R&D and manufacturing sites in New Zealand, France, UK and India – partnering with customers to create solutions that perform at ever greater levels.

Management commentary
(no financial statements)

Next generation performance

XMEMS® + Niku™

Rakon's industry-leading XMEMS® resonators and nanotechnology manufacturing process enables the incredible accuracy needed to develop and deliver miniaturised products with unprecedented performance.

Coupled with our next generation semiconductors like Niku™, this technology forms the foundation of Rakon's latest suite of frequency control and timing solutions.

Ultra Stable TCXO with Niku™ semiconductor not shown to scale, actual size: 5mm x 3.2mm

Management commentary
(no financial statements)

Connected to our core markets

Continued growth in global demand for Rakon's industry-leading products in our key markets of telecommunications, space and defence and positioning, has allowed us to sustain the record revenue levels achieved last year.

As we continue to build and strengthen our customer relationships, and innovate the next wave of high-performing products, we're positioned to grow with industries like NewSpace and 5G telecommunications as they deliver on their massive potential.

Management commentary
(no financial statements)

Welcome to our 2023 Annual Report

This document reports on Rakon's operational and financial performance for the year to 31 March 2023 (FY23). 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.

Our commitment to sustainability is demonstrated through our Environmental, Social and Governance (ESG) actions. This year we report on our progress across a number of material ESG related topics and provide our first climate report following, where we can, the disclosure recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Pages 46–70 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 71–115 have been prepared in accordance with appropriate accounting standards and have been independently audited by PricewaterhouseCoopers.

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.

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**.

Management commentary
(no financial statements)

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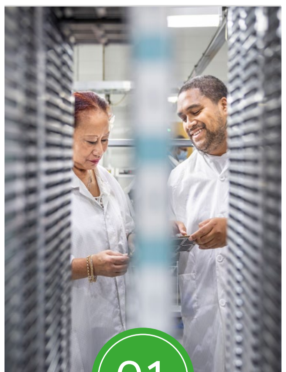

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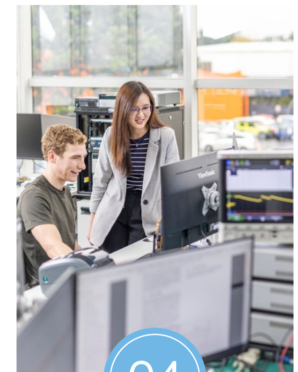

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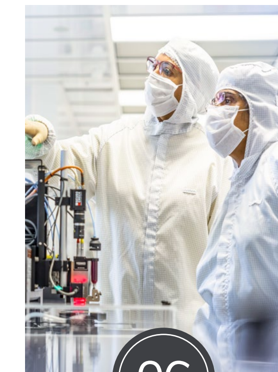


06

Management commentary
(no financial statements)

About Rakon

The future. Connected.

Rakon designs and manufactures advanced frequency control and timing solutions that are critical to enabling connectivity between people, networks and machines.

Think of our products as the ‘heartbeat’ for electronic systems. They create extremely accurate and stable electric signals to generate radio waves and synchronise time in everything from 5G networks and satellites to autonomous vehicles and emergency beacons.

As technology evolves it needs increasingly faster, more precise and more stable connectivity. That’s what we deliver. The highly accurate and stable timing reference produced by our products makes next generation applications possible and is relied on to deliver exceptional connectivity in even the most extreme conditions.

Management commentary
(no financial statements)

THE YEAR IN CONTEXT

01

Management commentary
(no financial statements)

Performance snapshot

REVENUE

$180.3M

▲ $8.4M OR 5%

GROSS MARGIN

$88.8M

▼ $1.3M OR 1%

NET PROFIT AFTER TAX (NPAT)

$23.2M

▼ $10.0M OR 30%

UNDERLYING EBITDA[2]

$42.2M

▼ $12.2M OR 23%

OPERATING CASH FLOW

$11.1M

▼ $19M OR 63%

NET CASH (INCLUDING BORROWINGS)

$16.5M

▼ $6.8M OR 29%

Highlights

+16% core revenue growth

HIGHEST EVER CORE BUSINESS REVENUE (NON CHIP-SHORTAGE RELATED REVENUE)

1.5c dividend declared

AND DIVIDEND REINVESTMENT PLAN

Stable margins maintained

ACROSS CORE MARKETS

3-year growth plan

FY23 MILESTONES 100% ACHIEVED

India manufacturing centre of excellence

ON TRACK TO OPEN MID-JUNE 2023

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 2022) unless otherwise stated.

1 Refer to the footnote on page 69 for the definition of Underlying EBITDA as a non-GAAP financial measure, referred to in this document.

Management commentary
(no financial statements)

Chair & CEO report

LORRAINE WITTEN / CHAIR **SINAN ALTUG / CEO**

We are proud to deliver a sound operating result, marked by significant expansion in our core business and substantive progress on key initiatives – the bedrock of Rakon's growth plan.

The 12-month period to 31 March 2023 (FY23) has been the best year ever for our core business with continued growth in global demand for Rakon's industry-leading products across all key markets. Focused on sustained value creation for our shareholders we have delivered all of the key milestones in the three year growth plan critical to Rakon's long-term growth. Careful management of cash flow has enabled us to maintain a robust balance sheet, invest in growth and commence dividends to shareholders.

We acknowledge and thank our nearly thousand-strong global Rakon team for their efforts in making all these achievements happen, in particular for their dedication, can-do attitude and unrelenting commitment to our customers.

FINANCIAL RESULT REFLECTS GROWTH IN CORE BUSINESS AND INVESTMENT IN OUR 3-YEAR GROWTH PLAN

Total revenue for the year was up 5% at $180.3 million, compared with $172.0 million for the year to 31 March 2022 (FY22). Underlying EBITDA of $42.2 million was 23% lower than last year, primarily as the result of increased operating expenses, including investment in future growth initiatives. Net Profit After Tax (NPAT) was $23.2 million, reflecting the lower Underlying EBITDA performance as well as a share of a loss made by an associate.

Revenue growth was consistently strong across all core markets. Telecommunications, Rakon's largest market, grew by 17% to $100.6 million (FY22: $86.0 million) on the back of continued 5G and 4G network infrastructure growth globally. Increased activity in both Space and Defence segments resulted in a 18% revenue increase,

> "The 12-month period to 31 March 2023 has been the best ever year for Rakon's core business."

Management commentary
(no financial statements)

to $28.9 million (FY22: $24.5 million). Positioning grew by 21% to $33.8 million (FY22: $28.1 million) driven by increased demand for Rakon's precision timing products in the industrial, agricultural, automotive and emergency locator beacon segments.

Additional revenue from the one-off chip shortage contracts (won in FY21 and FY22) fell from $31 million to $16 million as the contracts completed over the year and global chip supply normalised. Further market information is provided on page 21.

Gross profit was slightly lower at $88.8 million, while gross margin percentage was 49% (FY22: 52%). This mild fluctuation was primarily due to a shift in the product mix. Over the years, we have maintained stable overheads, however as expected, we saw an increase in operating expenses in FY23 of $9.5 million (19%). This increase is attributed to our strategic investments in resources and innovation, supporting our future growth trajectory, combined with some impact from inflationary pressures on labour, energy costs and other overheads. The rise in operating expenses was partially offset by the favourable foreign exchange gains of $3.0 million mostly from revaluation of our USD debtors and bank balances.

Underlying EBITDA stood at $42.2 million, within our projected guidance range of $40-44 million, representing an EBITDA margin of some 23% - Rakon's second-best earnings year ever.

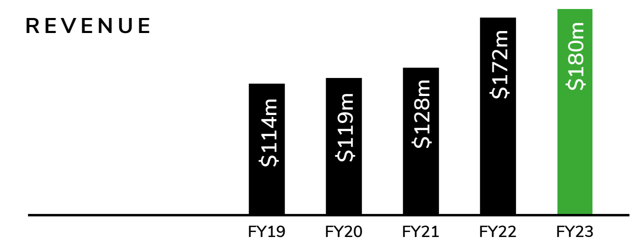
Operating cash flow for the period was $11.1 million, down on last year's $30.2 million as the result of our increased investments in growth-related initiatives, technology innovation, and increased inventory to provide supply chain resilience, in addition to increased overhead costs reflecting the current inflationary environment.

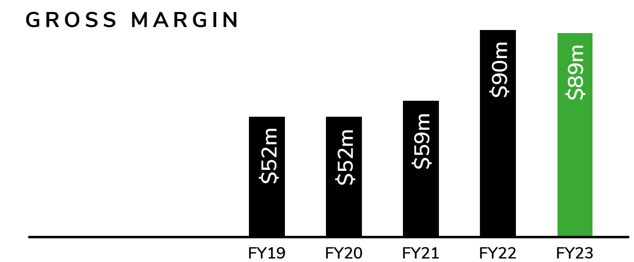
BALANCE SHEET REMAINS ROBUST

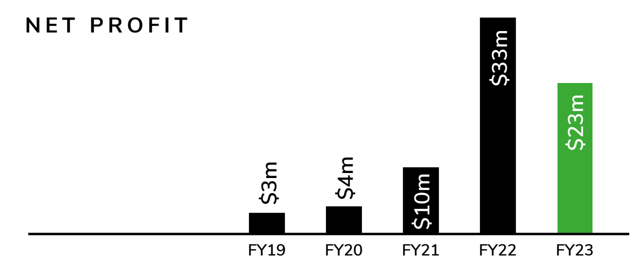
Rakon's balance sheet remains robust, with net assets increasing by 16% to $156.9 million since March 2022. The company had $16.5 million in net cash at balance date, $6.8 million lower than a year ago as we continued to self-fund key growth-focused projects. Payments of $9.5 million were made during the year for construction of the new manufacturing facility in India, which is now largely complete.

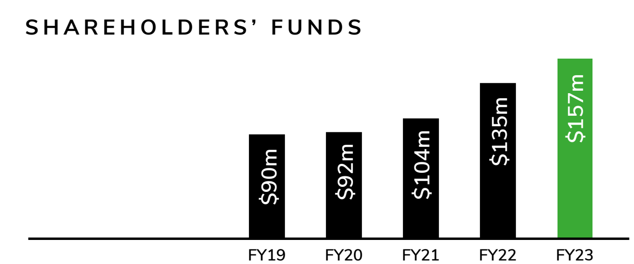
We reduced borrowings by $10.7 million during the year. The $10 million private debt facility held at the beginning of the year was repaid and a new, more flexible debt facility arrangement was agreed with ASB Bank.

Inventory levels increased over the first half, following the deliberate strategy to build safety stocks of raw materials and finished products to mitigate supply chain risks, ensure delivery continuity for key customers and also to support the transfer of Rakon India's manufacturing operation to the new facility. Since 30 September 2022 inventory has reduced 13% and we expect the balance date inventory level of









Management commentary
(no financial statements)

$62.6 million (FY22: $57.3 million) to continue reducing through FY24 as supply chain volatility reduces and manufacturing volumes build in the new facility.

We will continue to manage our balance sheet to support the company's long-term sustainability and growth strategy, including maintaining capacity to execute growth opportunities over time.

SIGNIFICANT PROGRESS AGAINST OUR GROWTH STRATEGY

Rakon's strategy focuses on delivering sustained value creation for our shareholders, propelled by growth in our core markets, market expansion through product leadership, technological innovation, operational and manufacturing efficiency, and fostering enduring customer relationships. This is graphically articulated on page 18, which shows the key strategic priorities critical to Rakon's long-term value creation.

Rakon's strategic vision is bolstered by our robust three-year plan, which we shared at last year's annual meeting. This plan outlines our key avenues for growth and underlines our focal points, encompassing both organic growth initiatives and strategic acquisitions for accelerated expansion. Our investment strategy continues to align seamlessly with these crucial areas. FY23 marked the launch of this three-year plan and we are proud to announce that every objective set for FY23 has been successfully achieved, a testament to our strategic execution and dedication to growth.

We have received exceptional market feedback about our new XMEMS® nanotechnology frequency control products launched during the year. Our UK-based semiconductor development programme has also expanded and successfully released Niku™, our next generation semiconductor chip. We are achieving strong industry support for our low earth orbit (LEO) satellite subsystems as well as the highest validation with multiple Rakon products onboard a groundbreaking European Space Agency mission to study Jupiter's moons for signs of life. We have largely completed the construction of Rakon's new manufacturing Centre of Excellence in India, and we are now past the peak risk of this project, with our first products already being produced and the relevant certifications achieved.

We are continuing to evaluate and consider potential acquisition opportunities which align with our strategy and we can see clear synergies in acquiring a US-based business that provides access to top-tier US customers through local manufacturing and strengthens existing customer relationships. We are engaging with a shortlist of suitable target companies and taking the necessary time to ensure any potential acquisition will enhance or be supported by our competitive advantage and capability, and be value-accretive.

RAKON TO COMMENCE DIVIDENDS.

The Board has rigorously assessed Rakon's future capital requirements in line with its three-year growth plan, cash flow forecasts, and relevant external variables.

The careful management of free cash flow through the year has enabled borrowings to be repaid, a strong balance sheet to be maintained and growth initiatives to be funded. Alongside this there has been an improvement in the company's operational risk profile following the resolution of raw material shortages and the near completion of the facility in India.

Therefore, the Board is pleased to confirm that Rakon will commence dividend distributions, representing a landmark in its fiscal journey. The Board is declaring a FY23 fully imputed dividend of 1.5 cents per share, with a record date of 24 July 2023 and payment date of 8 August 2023. The payment date of this dividend has been set to allow time for the introduction of a Dividend Reinvestment Plan, which will give shareholders the opportunity to increase their investment in Rakon without incurring brokerage charges. It is our intention to distribute the plan's offer document and participation notice in the coming weeks.

> "The Board is declaring a FY23 fully imputed dividend of 1.5 cents per share."

The Board believes this level of dividend payment is sustainable through the investment and execution of our three year growth plan which is focused on delivering shareholder value over time.

GOVERNANCE

Following recent years of Board refreshment and focus on improved governance practices, our Board is an effective team with a strong mix of skills and experience. The Board has a strong sense of shared purpose, a focus on key strategic issues, risks and opportunities and a commitment to ongoing learning and development. During the year the Board worked closely with the Chief Executive and the Management team to develop an environment for robust debate while also setting high expectations for reporting, self-review and stakeholder engagement.

We have continued to monitor and assess the risks and opportunities facing Rakon during an extremely busy period of delivering core business growth and simultaneously implementing significant growth projects including building a new manufacturing facility.

The Board has a clear vision for sustainability, with objectives which are aligned with Rakon's broader growth strategy. During the year a review of board and committee charters was completed to ensure they reflect the Board's oversight of a global business and particularly, to reflect responsibility for the oversight of sustainability.

During the year considerable progress was also made in building our capability in Environmental, Social and Governance including climate-related matters across the organisation. A key focus this year has been preparing for mandatory climate reporting in 2024. We have prepared climate disclosures aligned with the TCFD approach and have taken an initial assessment of how climate-related matters, risks and opportunities will impact our strategy.

During the year, we transitioned our New Zealand manufacturing process from using carbon dioxide to nitrogen. This has already seen a significant reduction in our Scope 1 carbon emissions in FY23, and we will contribute further once complete in FY24. Our new manufacturing plant in India will also allow Rakon's vision for sustainability to be put into practice on a larger scale.

SUMMARY AND OUTLOOK

The continued revenue and margin growth of our core business over the last five years highlights Rakon's competitive advantages and the trust our customers have in our products, innovation and customer service, regardless of where they are in the world. The longer-term growth fundamentals for our core markets remain strong and the opportunities significant with the ongoing evolution of 5G, cloud and edge computing, autonomous machines and vehicles, aerospace and the entire NewSpace ecosystem.

Within this confident outlook Rakon acknowledges that growth rarely follows a straight-line trajectory. In the short term, Rakon expects FY24 Underlying EBITDA of between $26 million and $34 million. This reflects the industry-wide normalisation of inventory levels among customers, following the stockpiling of components over the past two years, which is anticipated to have a $10 - $15 million revenue impact on FY24 principally in the first half of the year in the Telecommunications and Positioning segments. The demand in Space and Defence remains strong. The one-off chip shortage contracts that benefited FY22 and FY23 also rolled-off during FY23. We continue to feel the impacts of labour shortages, and inflationary pressures and are focused on making appropriate operating adjustments to optimise short-term financial performance without diminishing our future growth path.

Focused on sustained growth and shareholder value, we continue to invest in growth and are on track with our three-year growth plan that provides a strong foundation for future expansion in both core and new markets. We look forward to the inauguration of Rakon's new India facility in June, which will provide a vital long-term competitive advantage with significantly enhanced manufacturing capacity and capability and lower production costs. We also continue to actively seek growth opportunities, including acquisitions, where we see future value creation and alignment with our growth strategy.

As we embark on an exciting year ahead, we remain steadfast in our commitment to delivering long-term value to our shareholders. We're confident that Rakon's vision, resilience, and strategic initiatives will propel the business to new heights.

Lorraine Witten

LORRAINE WITTEN / CHAIR

SINAN ALTUG / CEO

Management commentary
(no financial statements)

Our global footprint

70
countries with Rakon customers

7
company and partner manufacturing sites

6
R&D centres of excellence

16
customer support locations

1000+
employees worldwide

46
nationalities in the Rakon global team

Management commentary
(no financial statements)

An Ariane 5 lifts off April 14 carrying European Space Agency's JUICE mission to Jupiter. Credit: ESA/M. Pédoussaut

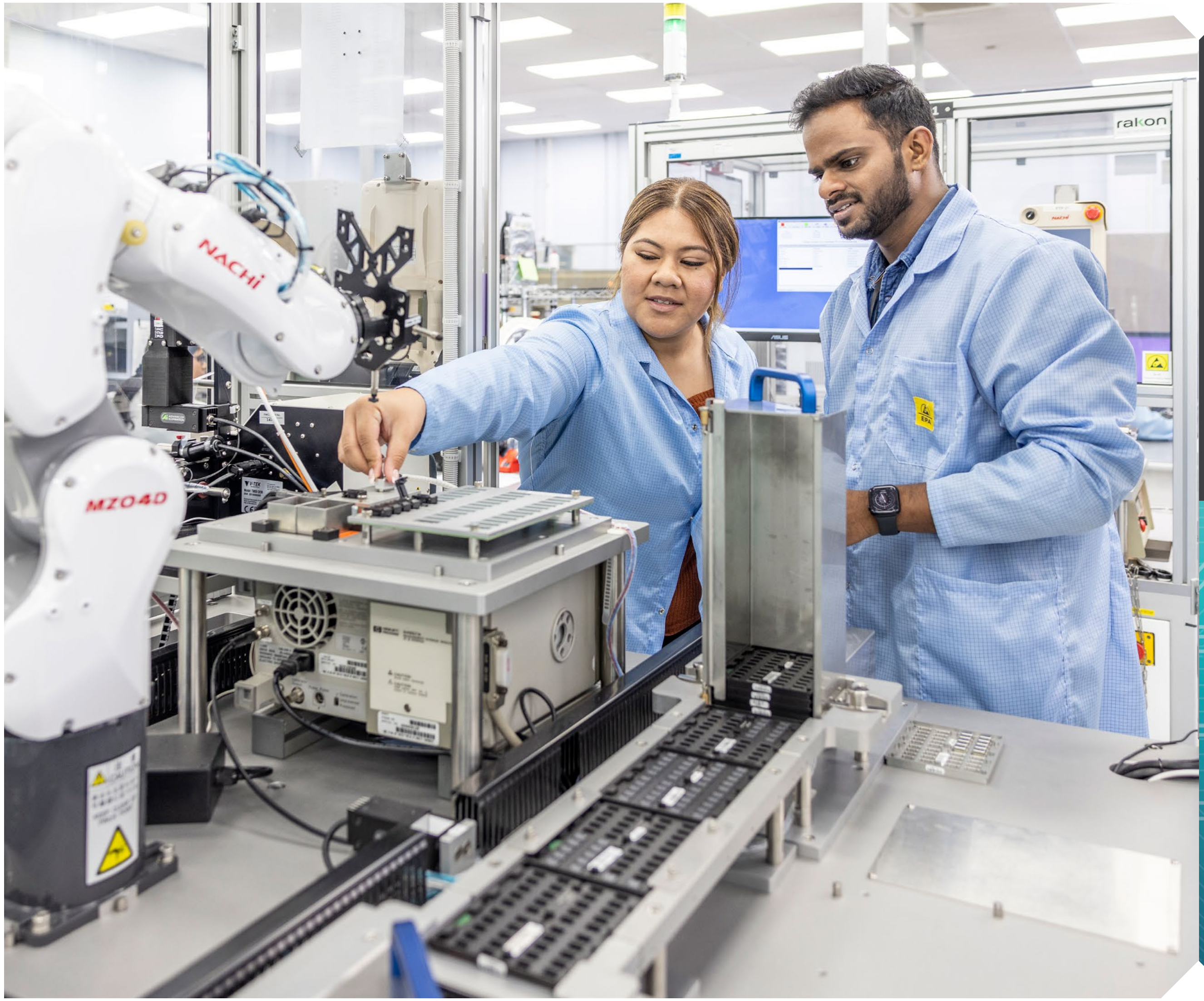
Powering the pulse of space activity and exploration

Rakon has a proud 40-year legacy of delivering cutting-edge products for over 50 international space programmes, including: Sentinel, Galileo, Rosetta and Mars Perseverance.

Most recently, three Rakon products took flight in April 2023 onboard the European Space Agency's groundbreaking JUICE mission to observe Jupiter and its moons for signs of life.

We've also established ourselves in the fast growing NewSpace and Low Earth Orbit (LEO) satellite ecosystem – with our latest NewSpace GNSS receiver product being used in an earth observation satellite launched in April 2023.

Management commentary
(no financial statements)



OUR LONG-TERM GROWTH PLAN

02

Management commentary
(no financial statements)

STRATEGY

Our growth strategy

FOUR PATHS TO GROWTH

Rakon's growth strategy is set around an evolving set of objectives which focus on: growing our core business, maintaining our product and technology leadership, expanding into new markets, and being a world-class manufacturer.

Each path has key areas where we are focusing our efforts to drive growth. This may be through organic growth initiatives or strategic acquisitions which accelerate growth through access to markets or technologies. As we invest in growth, our investments will align with these areas.

Management commentary
(no financial statements)

STRATEGY

How we create long-term value

Our strategic pillars: customer partnerships; technology innovation; core markets, and flexible, scalable operations – are our key drivers of value and 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.

A VALUES-DRIVEN CULTURE

Our values-driven, innovation-focused culture provides the foundation – shaping how we capture opportunities, manage risk, look after each other, and deliver on our ESG objectives and sustainability goals.

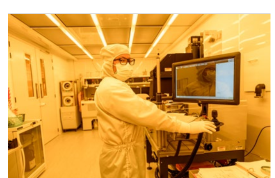
Management commentary
(no financial statements)

STRATEGY

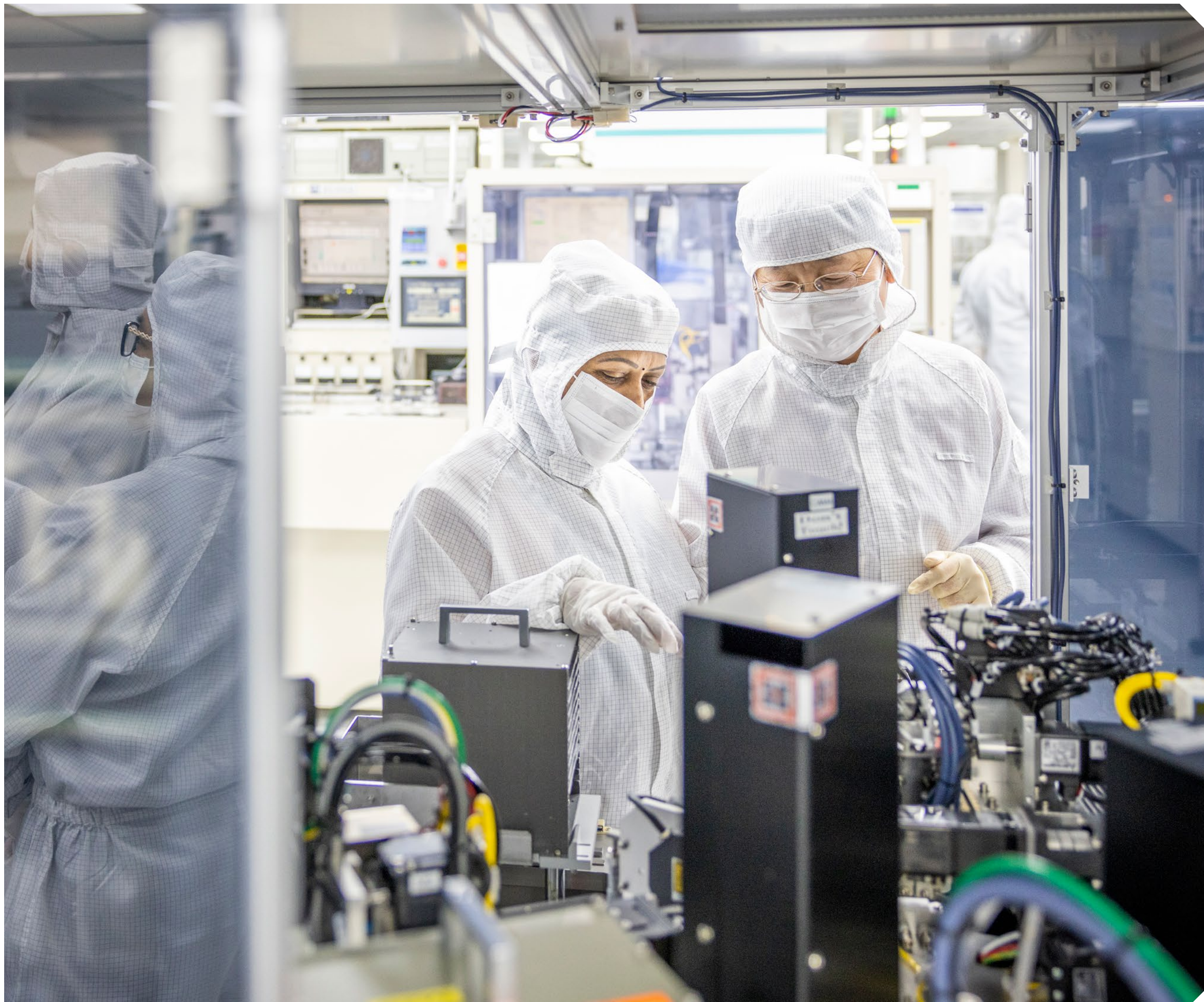
3-Year growth roadmap FY23 milestones achieved

Delivering on our strategic growth objectives will deliver long-term value for our shareholders.

We are investing in strategic initiatives to drive future value growth. This three-year roadmap shows critical milestones for these initiatives. We are pleased to report all milestones were achieved in FY23.

		FY23	FY24	FY25
	NEW MANUFACTURING FACILITY IN INDIA	• Construction completed • Fitout / capacity expansion • Existing manufacturing transfer ✓	• Select NZ products transferred • Select NewSpace products transferred	• Select French NewSpace subsystem modules transferred
	RAKON DESIGNED SEMICONDUCTOR CHIPS	• Substantial increase in R&D and chip design capability • Release of Niku™ next generation chip ✓	• Release of Vulcan™ next generation chip • Chip based product revenue growing to over 60%	• Chip based product revenue growing • Release of next generation chips
	XMEMS® NANOTECHNOLOGY MANUFACTURING	• Continued investment in XMEMS® capability • Release of initial XMEMS® based products ✓	• Volume production of XMEMS®	• Leadership in targeted market segments • Expansion into other product categories
	NEWSPACE BUSINESS	• R&D and supply chain investment • Strategic relationships established ✓	• Recognised player in the ecosystem • Significant orders secured	• Become a top 3 player in subsystems • Delivery of orders

Management commentary
(no financial statements)



STRONG PROGRESS IN CORE MARKETS

03

Management commentary
(no financial statements)

Strong progress in core markets

Revenue growth was consistently strong across all core markets. Telecommunications, Rakon's largest market, grew by 17% to $101 million on the back of continued 5G and 4G network infrastructure growth globally. Increased activity in both Space and Defence segments resulted in a 18% revenue increase, to $29 million. Positioning grew by 21% to $34 million driven by increased demand for Rakon's precision timing products in the industrial, agricultural, automotive and emergency locator beacon segments.

Telecommunications

FY23 REVENUE

$101M

▲ UP 17%

56% OF TOTAL REVENUE

Management commentary
(no financial statements)

Space and defence

FY23 REVENUE

$29M

▲ UP 18%

16% OF TOTAL REVENUE

Positioning

FY23 REVENUE

$34M

▲ UP 21%

19% OF TOTAL REVENUE

Management commentary
(no financial statements)

Telecommunications

Our market-leading products enable data to be transmitted across telecommunications networks at ever-increasing levels of speed and reliability.

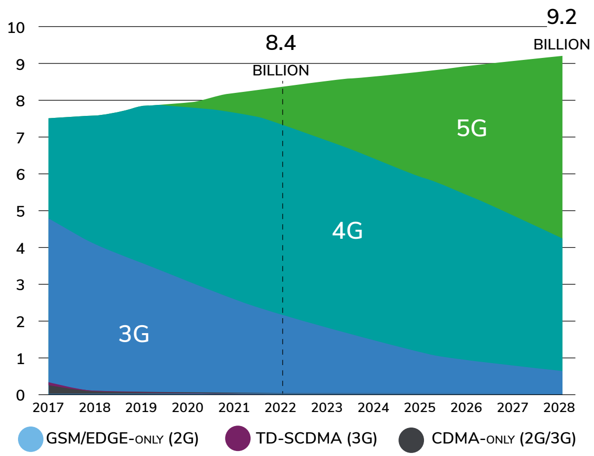
Market growth is being led by the relentless advancement of telecommunications and cloud computing equipment and infrastructure - in turn driven by rising consumer demand as well as industries capitalising on higher data speeds to deliver greater functionality to customers.

Management commentary
(no financial statements)

TELECOMMUNICATIONS

FIVE-FOLD 5G SUBSCRIPTION GROWTH BY 2028

MOBILE SUBSCRIPTIONS BY TECHNOLOGY



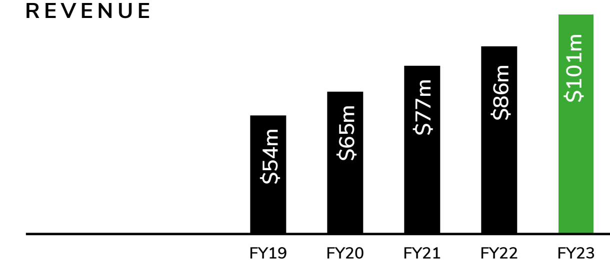
Source: Ericsson Mobility Report 2022 (November edition).

5BN

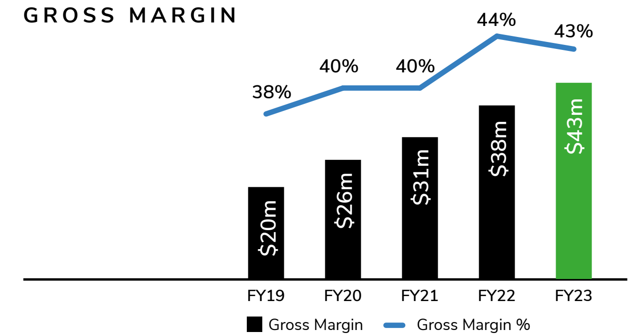
5G SUBSCRIPTIONS ARE FORECAST TO REACH 5 BILLION IN 2028

Source: Ericsson Mobility Report 2022 (November edition).

REVENUE



GROSS MARGIN



Telecommunications revenue grew 17% to $101 million, driven by continued momentum in 5G network deployments and 4G network upgrades. We have maintained our strong market share with Tier-1 customers, and have entered new strategic partnerships in the emerging O-RAN segment. Gross margins grew to $43 million, with a slightly lower gross margin percentage of 43% reflecting a changed product mix.

The strong market growth rate is expected to continue for at least the next five years, with latest industry reports showing 5G subscriptions topping one billion globally at the end of 2022 and expecting to surpass five billion by 2028 (see chart above). Likewise, 5G is expected to account for 80% of the estimated 300 million fixed wireless access (FWA) connections by 2028.

Our product leadership ensures high rates of inclusion in network equipment as well as third party reference designs which guarantee product demand over the life of the design being used. In FY23, we experienced key design wins with our new XMEMS® manufactured products being qualified into next generation 5G equipment, as well as strong uptake for our next-generation MercuryX™ OCXOs.

We also experienced key design wins in emerging architecture such as O-RAN, C-RAN and edge computing. Rakon supplies leading products into these applications including miniature Mercury+™ and MercuryX™ OCXOs – which incorporate proprietary XMEMS® technology. Our order book for this segment is already growing and we are confident it will deliver design opportunities as it accelerates over the next five years.

Looking ahead, we are currently seeing a number of our Tier-1 customers reducing their inventories after accumulating safety stocks in the past two years to mitigate supply chain risk. While this has caused a short-term slowdown of orders, our customers' production run rates remain at a level consistent with FY22. We are confident that as demand resumes, our longstanding customer relationships and product leadership will position us well to resume growth later in FY24.

Management commentary
(no financial statements)

Space and Defence

Our space and defence products deliver the highest levels of performance in extreme environments; in aviation, satellites, radar, communications and positioning systems.

We work with key partners in government agencies and commercial programmes around the world to develop next generation solutions.

Credit: ESA/M. Pédoussaut

Management commentary
(no financial statements)

SPACE AND DEFENCE

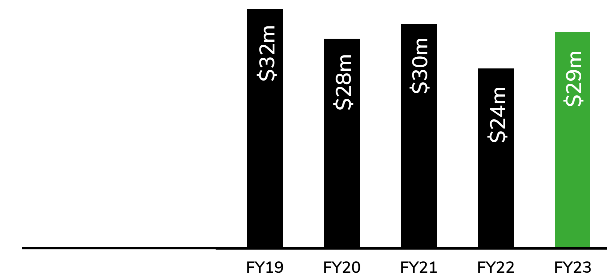
Space and defence revenue grew 18% to $29 million. This was due mainly to increased demand for high-reliability applications as key space programmes resumed for telecommunications and Low Earth Orbit PNT (positioning, navigation and timing) applications, and as defence sector activity started to build. Gross margin grew by 16% to $20 million, or 68% of revenue, reflecting the bespoke, high value and performance requirements for this market.

Future growth is being led by the emerging NewSpace and low earth orbit (LEO) satellite, market which is projected to more than double the value of the space market and drive a three-fold increase in the number of active satellites by 2030.

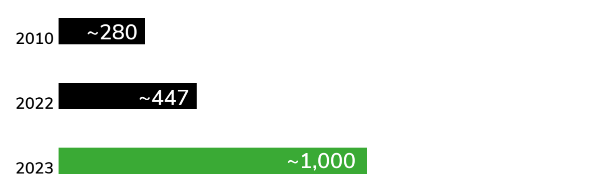
Rakon has made solid progress over the year in its NewSpace programme. We have built our R&D capability, product portfolio and strategic relationships for this longer-term play and were pleased to have our first GNSS receiver in orbit in April 2023.

We have a solid FY24 order book in both segments and are confident of maintaining our revenue levels of the past year. We are seeing the strongest rate of growth in the NewSpace market, with Rakon involved in an increasing number of telecommunications and LEO PNT constellations where there is a strong need for our equipment and stable clocks. In the defence market, we are seeing strong demand in communication applications.

REVENUE

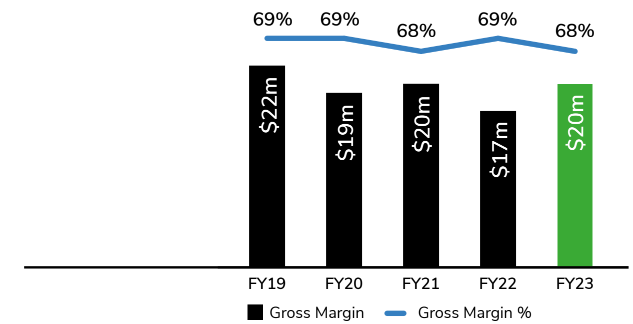


PROJECTIONS FOR SPACE MARKET GROWTH
$ BILLION



Source: McKinsey & Company: 'A giant leap for the space industry', January 2023.

GROSS MARGIN



Management commentary
(no financial statements)

Positioning

Our positioning products meet the most accurate positioning requirements in key industries: aircraft/marine navigation, survey equipment, emergency beacons, automotive, autonomous agriculture and mining.

Market growth is being led by autonomous agricultural and industrial machines and other precision equipment such as unmanned vehicles.

Management commentary
(no financial statements)

POSITIONING

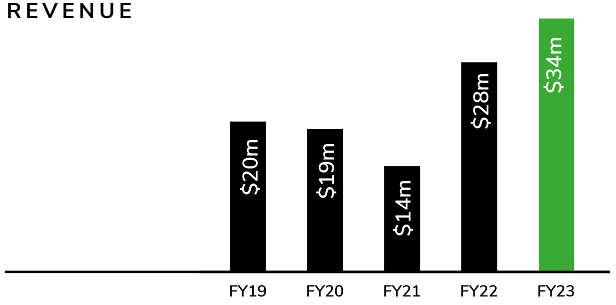
Positioning revenue grew 21% to $34 million, driven by solid growth in the industrial (agriculture and construction surveying) and automotive segments, as well as a resurgence in emergency beacons as global travel returned. Gross margin increased 10% to $18 million, or 53% of revenue.

We are continuing to benefit from our strategic pivot to industrial and precision applications. Our strong levels of customer service and product performance have resulted in solid customer partnerships, increased market share and opportunities to develop and deliver new high-performance products for these markets. By leveraging the TCXO shortage opportunities, we have also strengthened our relationships with longstanding customers.

Late in the year we released a new suite of TCXO products based on Niku™, our new-generation semiconductor chip designed to support positioning. The range includes products manufactured with our new XMEMS® technology which delivers significantly greater stability for high performance applications. Customer interest and uptake has been encouraging to date. We also look forward to the impending release of our 2nd generation emergency beacon TCXOs which deliver a significant step up in location response times and accuracy.

The positioning sector is also showing a temporary slowdown of orders as some customers readjust inventory levels. We expect this to impact 1H24 revenues, but beyond that our customers are forecasting strong, long-term market growth and we remain focused on capturing opportunities in our key segments.

REVENUE



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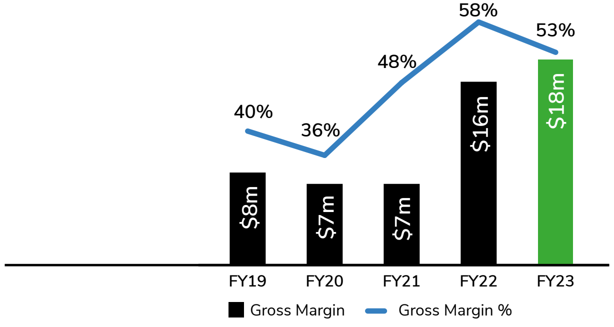


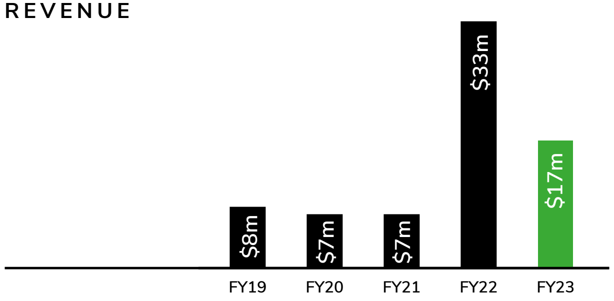
Management commentary
(no financial statements)

Other markets

We partner with customers to deliver one-off solutions for applications such as wireless control, test and measurement, Machine-to-Machine (M2M), smart grids and metering, and other emerging markets.

Revenue declined by 48% to $17 million as one-off TCXO orders stemming from earlier global chip shortages were completed. This short-term 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 first order. Margins declined proportionately to 48% and the segment contributed 9% of total revenue compared to 19% in FY22.

REVENUE



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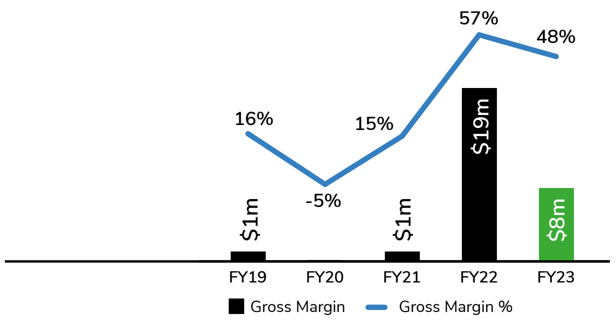


Management commentary
(no financial statements)

FUTURE-FOCUSED PATHS TO GROWTH

04

Management commentary
(no financial statements)

Technology leadership

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 enhanced and next generation technologies.

Rakon invested $17 million in research and development during the year, with a key focus on three key technology projects: development of new semiconductor chip products; the new XMEMS® core nanotechnology; and products to support expansion into the NewSpace market.

RAKON PROPRIETARY SEMICONDUCTOR CHIPS

For more than 15 years, Rakon has developed proprietary semiconductor chips for our products, at our UK-based R&D facility. These chips enable our products to deliver superior product performance, providing a competitive advantage and long lifecycles.

Rakon chip-based products also deliver greater value – comprising 45% of our revenue in FY23 and 60% of total margin.

During FY23 we invested in our semiconductor programme, with the aim of increasing our capability to design and deliver new chips by integrating chip and product design; and to reduce time to market. As part of this we have expanded our UK-based team, and will be relocating it to Cambridge in FY24 where there is a strong technology community.

Our longer-term aim is to build strong, in-house IP that pushes the technology and performance barriers and delivers new chips that underpin the next generation of Rakon products.

We are on track with our plan to release four new-generation chips and their associated product families between FY23 and FY25, and around two chips per year beyond that.

Uptake of Mercury™ chip-based products is continuing to build, with OCXO products containing the Mercury+™ chip approved in a number of Tier 1 telecommunications network reference designs, and the new MercuryX™ (incorporating XMEMS®) products gaining strong edge computing market interest.

XMEMS® NANOTECHNOLOGY MANUFACTURING

Our game-changing XMEMS® resonators and manufacturing allows Rakon to produce miniaturised products, which perform at levels not possible using traditional manufacturing methods.

During the year we released to market the first suite of products manufactured using XMEMS® technology. By March 2023, we had five product families available in our core markets.

Customer feedback on product performance has been very positive. While some new XMEMS® products may replace older-generation products which are nearing obsolescence, the majority are providing Rakon with the opportunity to strengthen its market leadership in high-performance products across all core markets.

We invested in new equipment, to provide scalability and expand manufacturing capacity in New Zealand to support anticipated demand. We have also enabled future expansion for XMEMS® within the new Rakon India facility.

With volume production now under way, we are experiencing additional benefit of increased manufacturing efficiencies – delivering higher volumes and yields for tighter product specifications and improving margins.

Looking ahead, XMEMS® manufacturing remains on track to achieve its goals of becoming cash positive by the end of FY25.

Management commentary
(no financial statements)

Expanding into new markets

NEWSPACE – LEO SATELLITES

With telecommunications and earth observation driving an expected four-fold growth in demand for LEO (Low Earth Orbit) satellites over the next decade, the evolving NewSpace ecosystem requires mass-manufactured products delivering space-grade performance.

Rakon has the opportunity to leverage the long space heritage and advanced R&D capability of our Rakon France operation, and the efficient manufacturing at scale of our French and Indian operations, to capture NewSpace opportunities. In particular we have the opportunity to pivot from being solely a component supplier to supplying higher value satellite equipment.

During the year, we invested in R&D, our supply chain and the establishment of a dedicated internal team. We have made solid progress and achieved some key milestones.

As an important foundation for this programme, we completed a comprehensive market study, in which we analysed the market; evaluated our competitive strengths; and valued and prioritised opportunities.

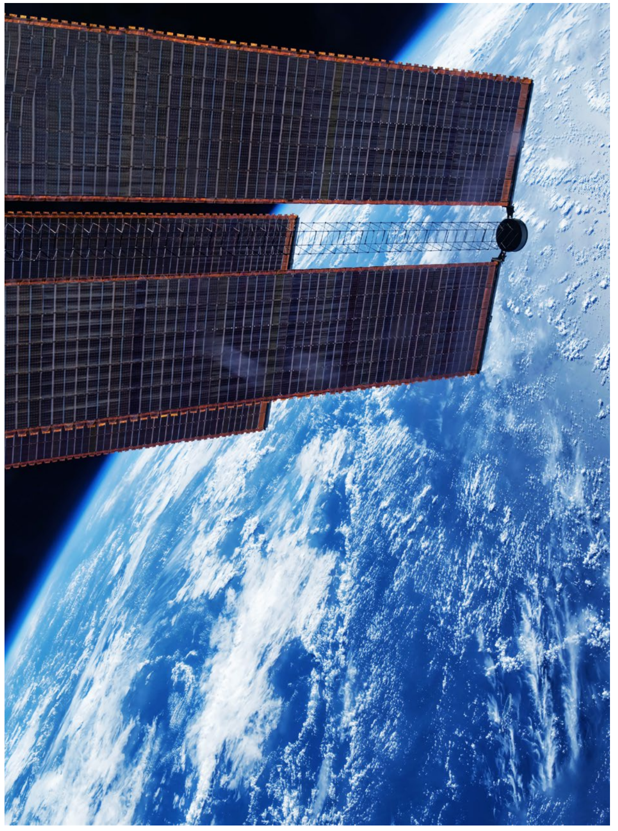
We have made solid progress towards establishing strategic partnerships, which are currently being agreed to further develop our GNSS Receiver and SDR portfolio. We are also receiving strong support from our partner Space Agencies for the development of this portfolio.

We were pleased to have a GNSS receiver onboard the recent launch of a high-resolution earth observation and IoT satellite by Turkey's Plan-S, one of the industry's largest private initiatives. This mission is expected to be the baseline for a large constellation, planned for 2024-25.

Rakon is now bidding for multiple large LEO PNT[1] and telecommunications constellations, and we expect to start having first orders confirmed in the first half of FY24.

Our focus for the coming year will be on working with our strategic partners to capture opportunities and secure orders. We will further develop our equipment portfolio with the support of our partners and customers who are looking for the low cost but high performing solutions that Rakon can provide.

With Rakon already a recognised player in high performance frequency control products, we are fast becoming a credible and recognised player in the NewSpace ecosystem, especially for everything that is related to GNSS and communications. We remain confident that we are on track to become cash positive by the end of FY25.



1 LEO PNT: Low Earth Orbit positioning, navigation and timing.

Management commentary
(no financial statements)

Innovating in India

Rakon's new world-class manufacturing facility in Bengaluru, India will enhance our global position and provide long-term competitive advantages and significant cost reductions.

Our manufacturing presence in India continues to open doors for Rakon, aligning with the Indian Government's 'Make in India' initiative. We're proud to be a trusted and strategic supplier to leading companies across India's telecommunications, space and defence industries.

The facility is also at the forefront of sustainable building practices around the use of water and energy, and expected to attain LEED (Leadership in Energy and Environmental Design) certification upon completion.

Management commentary
(no financial statements)

World class manufacturing

RAKON INDIA FACILITY

Located in the aerospace park in Bengaluru, Karnataka, Rakon India's new facility will be an integrated manufacturing Centre of Excellence and one of the world's largest and most sophisticated manufacturing sites for advanced frequency control products.

With 'Make in India' at the heart of its operations, Rakon India is a trusted and strategic supplier to leading companies across India's telecommunications, space and defence industries as well as internationally. The new facility will support Rakon's growth strategy through two key objectives:

- research and development towards the strategic design and manufacture of products to meet the specifications of the Indian Space Research Organisation (ISRO and NewSpace agencies, and
- expansion in production and sales to meet the increased demand for crystal oscillators in the global electronics/ telecommunications, space and defence markets.

Total cost to date is on track for $14-15m, invested in land, buildings and equipment, with the majority of spend in FY23.

The facility is now largely complete, with most of the plant and equipment installed and commissioned and customer qualification of sample products well under way. ISO9001 certification has been achieved, with crystal manufacturing having commenced in February 2023 and our first OCXO oscillators produced in March 2023. We have 200 of our 500 Rakon India team members now working onsite.

The new facility is expected to be fully operational by September 2023, providing a high quality, cost-effective operating platform for the manufacture of OCXOs for telecommunications, and other high reliability products, which will allow significantly greater volumes of products to be produced.

Significant business continuity planning and risk management was undertaken through the complex process of commissioning new plant, qualifying products and commencing production at the new facility. These processes have been well managed to date, with customer supply continuing uninterrupted and supported by safety stocks of inventory.

Inside the new facility – May 2023.

Management commentary
(no financial statements)

BUILDING SUSTAINABLY IN INDIA

Our new Manufacturing Centre of Excellence in Bengaluru has allowed Rakon's vision for sustainability to be put into practice on a large scale.

Designed under the LEED (Leadership in Energy and Environmental Design) framework - the world's most widely used green building rating system – the facility has embraced sustainability goals including building practices around the use of water and energy.

As it was developed, we gave careful thought to all aspects of building design and operations, manufacturing practices, logistics and employee health and safety and wellbeing.

With 650 m^2 of class 1,000 (ISO 6) and 10,000 (ISO 7) cleanrooms, our new building is operated with an integrated building management system (BMS), enhanced Electrostatic Discharge (ESD) control system and uninterrupted power supply and back-up. It also complies with the provisions of ASHRAE 90.1-2010, making optimal use of natural light and LED lighting.

Energy consumption is monitored closely, with separate metering for indoor lighting, outdoor lighting, connected power, HVAC, and other areas that use high power consumption. We will use renewable energy purchased through a third-party agreement to the extent of 70% of our total consumption, and potentially up to 100%, subject to our consumption level and regulatory guidelines.

We aim to manage every drop of water - collecting rainwater as well as harvesting and using sewage treatment plant water for irrigation. The low-impact green infrastructure used to mitigate rainwater run-off has also been designed to provide open spaces for walking, recreation, and gardens. Our water-saving continues indoors with measures such as water-saving dual flush toilets and low-flow taps, health faucets and showers.

Accessibility was a key factor when we chose the site. Located close to the international airport, logistics hubs and public transport, our facility is easily accessible. We provide dedicated bus services for employees as well as making it easy to use carpooling, green vehicles and bicycles, by providing facilities such as bicycle stands, dedicated parking for those that carpool, EV charging points and shower facilities.

The new facility has already received the thumbs up from employees, and we we expect to receive our LEED certification later this year.

> "The facility has embraced sustainable building practices around the use of water and energy."

Management commentary
(no financial statements)

SUSTAINABILITY AND ESG

05

Management commentary
(no financial statements)

Our People

People are at the heart of everything we do.

Whether it's life-changing applications for our products or maintaining close ties with customers and a long-term approach to relationships within our markets, Rakon's culture is built around putting people first, and central to that is our global team.

We attract high calibre talent, invest in their development and create a safe and inclusive environment, focused on empowering our people to do their best work while supporting them to look after their well-being.

CULTURE AND VALUES

Rakon's culture of innovation not only drives our next generation technology, it also connects our people to the same mission, and to a work environment that allows them to feel comfortable being themselves while making meaningful contributions to our goals.

True to Rakon's origins, starting out as a family business over 50 years ago, our culture is built on values that reflect the 'family' approach to how we look after one another. We work hard to ensure our people can connect to our purpose, vision and values of passion, respect, courage, perseverance and integrity.

The collective passion among our team for contributing towards next generation innovation and solutions leads to collaboration, a commitment to customer and continued team success. The strong engagement of Rakon's team members is reflected in our internal surveys where employees name product, quality, technology, and culture as the key things they rate most highly about Rakon.

OUR VALUES

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.

PASSION

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

Management commentary
(no financial statements)

DIVERSITY & INCLUSION

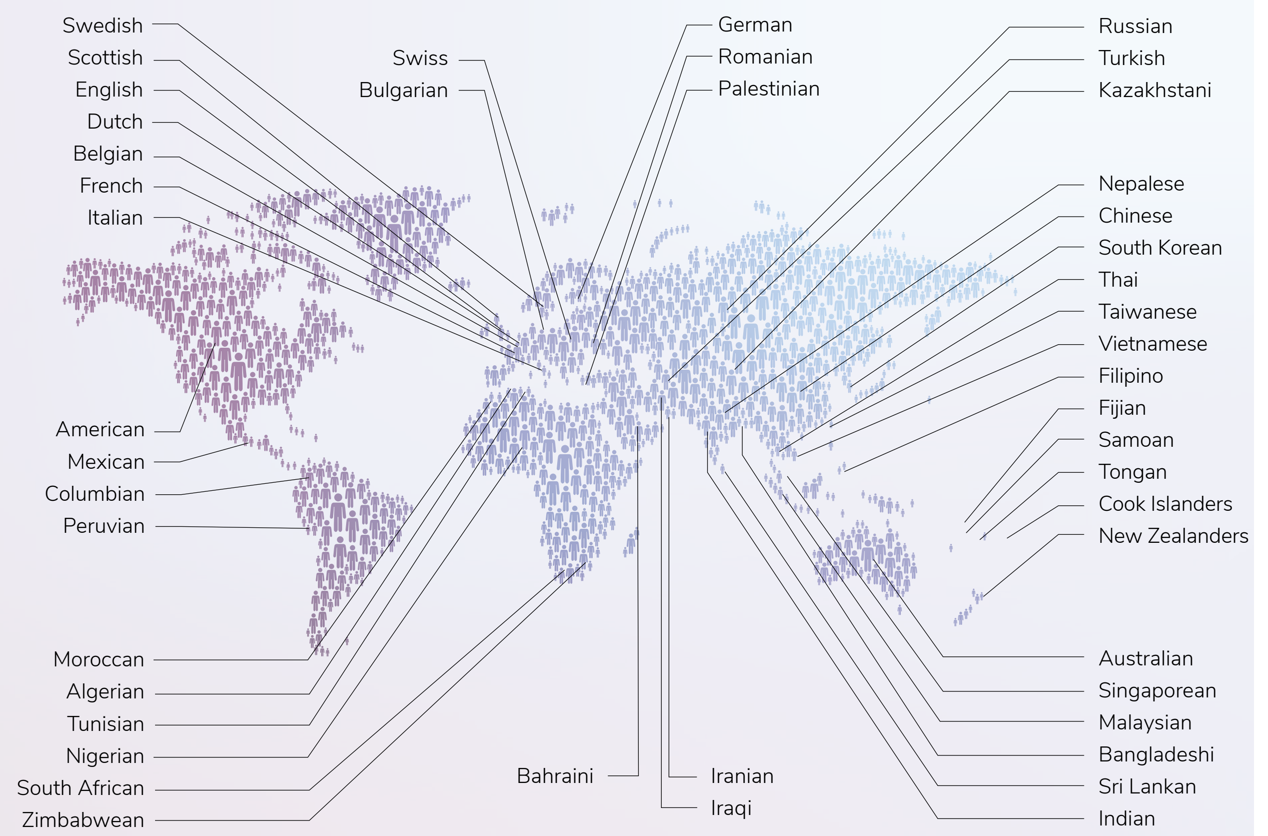
Rakon is a truly global organisation, with a workforce located across 10 countries and representing 46 different nationalities.

We're proud of the wide range of skills, backgrounds, ethnicities and experiences in our global team. They reflect the diversity of our customers we have and the communities in which we operate.

We recognise the importance of diversity and inclusion at the strategic and day-to-day levels in achieving our business objectives, fulfilling customer needs, and creating a high-performing, enjoyable and values-driven culture.

Our diversity policy outlines our commitment to a diverse and inclusive working environment globally. The unique strengths and characteristics of our team members are recognised, and we strive to provide an environment across all of our sites, where everyone can feel comfortable bringing their authentic selves into the workplace.

Our global talent acquisition and management programmes, along with our succession management processes, guide our efforts to attract, develop and retain high calibre candidates and employees who are aligned to our culture and values.



OUR GLOBAL TEAM – NATIONALITIES IN RAKON FY23

10 Countries

46 Nationalities

Our global team are located across 10 countries, representing 46 different nationalities.

Management commentary
(no financial statements)

LEARNING & DEVELOPMENT

A technology pioneer for more than 50 years, Rakon has always recognised the importance of developing talent and promoting from within. We strive to provide meaningful career opportunities for our team members – across all levels and areas of the business, and particularly in the highly competitive skills environment. In FY23 we had 46 internal promotions, representing 16% of all appointments.

Raising up and developing leaders at all levels is a continuous focus. We provide development opportunities for our people leaders through a number of different programmes delivered around the globe. We also offer professional development across our business and continue to grow the opportunities available. Through our graduate programme, we offer support to team members where appropriate to continue their educational qualifications. So far, 26 current employees have achieved qualifications through this programme, whether it be an apprenticeship, diploma, bachelors' degree, masters or PhD qualification.

Our yearly graduate programme is run globally and allows our new graduates to sample different parts of the business, eventually settling in an area most suited to their capabilities and interests. Across the global business we partner with multiple technical institutes to ensure we have a varied range of skills, backgrounds and experiences joining our team.

HEALTH, SAFETY AND WELL-BEING

Rakon's enduring commitment to the health, safety and wellness of our team means we have established practices to promote a safe and healthy working environment globally. Each location is compliant with local health and safety legislation, and we are continually focussed on education and training, and identifying safety improvement opportunities.

Over FY23, two Lost Time Incidents (LTIs) were recorded (compared to seven in FY22) and 31 incidents were recorded (compared to 47 in FY22). These numbers reflect the positive impact of our ongoing education and training efforts, as well as the implementation of initiatives for continuous improvement.

1000+

TOTAL GLOBAL WORKFORCE

46

EMPLOYEES PROMOTED INTERNALLY (16% OF ALL APPOINTMENTS)

213

PEOPLE HAVE WORKED FOR RAKON FOR 15+ YEARS (22% OF GLOBAL TEAM)

EMPLOYEE WELL-BEING

Supporting and looking after the well-being and mental health of our employees is at the core of Rakon's culture. We regularly review and implement new initiatives designed to promote and improve workplace wellness, so that our people can monitor and maintain personal well-being, and be at their best within the workplace and in their personal lives.

These initiatives 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
- Mental Health 'First Aid' training for people leaders
- Online seminars on well-being, stress management, boosting mental health and personal wellness available for all employees
- Regular check-ins from managers to their team members and anonymised employee surveys focused on feedback around how they are and what else we could be doing to better support our teams and people.

Management commentary
(no financial statements)

Board and Management profiles

Management commentary
(no financial statements)

Our Board

Lorraine Witten

CHAIR AND 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 NZX listed Move Logistics and a director of Mercury and New Zealand private company vWork.

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

Sinead Horgan

INDEPENDENT DIRECTOR

BComm; MAcc; CMInstD; FCA

Appointed 2022

Sinead is a professional director with significant experience in finance, 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.

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 ECL Group and a director of Acumen Trust, Acumen New Zealand and Counties Power.

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

Steve Tucker

INDEPENDENT DIRECTOR

BMS; FCA; CMInstD

Appointed 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 and 5th Element. 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 Chartered Accountants Australia and New Zealand (CAANZ).

Management commentary
(no financial statements)

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 AoFrio (formerly Wellington Drive Technologies) and private company vWork.

Brent Robinson

EXECUTIVE DIRECTOR

Hon FIPENZ

Appointed 1991

Brent's 43 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.

Brent is also a director of Quantifi Photonics Limited.

Yin Tang (Tony) Tseng

DIRECTOR

Hon Master NTUST

Appointed 2017

Tony is the current Chair of Siward Crystal Technology Co. Limited, a substantial shareholder (12.23%) 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.

Management commentary
(no financial statements)

Management team

Dr Sinan Altug

CHIEF EXECUTIVE OFFICER

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

Sinan joined Rakon in 2002 and became 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 43 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.

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).

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.

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.

Management commentary
(no financial statements)

MANAGEMENT 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).

Maureen Shaddick

GENERAL COUNSEL AND 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.

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).

Cliff Hand

GENERAL MANAGER OPERATIONS

BSc (Mat. Eng)

Cliff first joined Rakon in 2018, managing the company's global integration strategy, before returning to the company in 2022 as General Manager Operations NZ.

In this role, he is responsible for the performance of the New Zealand business unit as well as driving several global strategic initiatives such as global product allocations and manufacturing excellence.

Cliff is a seasoned senior executive and business consultant with 25-plus years of experience in business management, manufacturing, operations, supply chain, HS&E, project management, performance and risk management. He holds qualifications from the University of Cape Town, University of Auckland and Melbourne Business School, with a focus on engineering, business management and organisational leadership.

Michael McIlroy

ADVANCED TECHNOLOGY MANAGER – GLOBAL ENGINEERING

BSc

Michael joined Rakon in 1991 and became Advanced Technology Manager in September 2018 where he heads the global activities, working alongside the global R&D teams, for research and development into new technologies and IP in products, resonators, semiconductor ASICs and associated manufacturing process technology. Prior to this he led the Research & Development team in New Zealand.

Michael has previously been General Manager of Engineering and NZ Manufacturing Manager and has played a key role in the growth and expansion of Rakon into a global business known for its industry leading technology and innovations.

Management commentary
(no financial statements)

Driving sustainability through our business

Consistent with our belief that connectivity can play a major role in the future sustainability of our planet, our vision for sustainability is simple – to support people and the planet through the connected future. This focus is increasingly embedded in our decision-making and behaviour, and is closely aligned with our business strategy.

Management commentary
(no financial statements)

FY23 PROGRESS

We are pleased to have made good progress over the past year in our sustainability journey, including our environmental, social and governance (ESG) reporting.

Here we highlight our main areas of focus and achievements for FY23, with further details provided on pages 50 to 56 and in our Climate Report on pages 128 to 135.

In FY24 we will build on these achievements and focus further on initiatives and activities that address our material ESG topics related to our products, supply chain, operations and people. Enablers which support our progress will include identifying opportunities for sustainability through innovation in product design, ongoing engagement with stakeholders and assigning roles and responsibilities across the organisation to support ESG and climate change initiatives and activities.

ENVIRONMENT

- Increasing understanding of our carbon footprint and developing our GHG Scope 1 and 2 baselines
- Making our first climate disclosure in accordance with TCFD disclosure approach, to support preparation for mandatory reporting in 2024
- Increasing understanding of our waste generation and water usage and developing our baselines
- Putting our vision for sustainability into practice on a large scale at our new Manufacturing Centre of Excellence in Bengaluru, India.

SOCIAL

- Fostering health and safety and well-being practices and reporting across global operations for healthy workforce and safe workplaces
- Regular employee engagement surveys and Values Workshops held with each of our global teams
- Review of Diversity and Inclusion Policy, Whistleblowing (Protected Disclosure) Policy, and Delegations Policy to foster workplace culture and diversity and organisational efficiency.
- Review and enhancement of Rakon's Supplier Code of Conduct to support ethical supply chain and focus on quality, environment, labour practices, management systems and governance
- Continued contribution to local communities through staff-initiated activities reflecting staff interest and values.

GOVERNANCE

- Review of Board and Committee Charters to reflect oversight responsibility and strategic focus on ESG and climate-related matters
- Review of risk management framework to ensure effectiveness for managing and reporting key strategic and operational risks including climate-related risks.

Management commentary
(no financial statements)

Our ESG framework

We have further developed our ESG framework over the past year to support our sustainability goals. In this section we share our material ESG issues and how they impact our business, our priorities for improvement and our climate reporting roadmap.

We also provide an update of our performance and progress over FY23. This includes, for the first time, performance in the key environmental areas of carbon, waste and water as well as an update on our progress towards compliance with the External Reporting Board (XRB)'s climate disclosures regime for FY24 onwards.

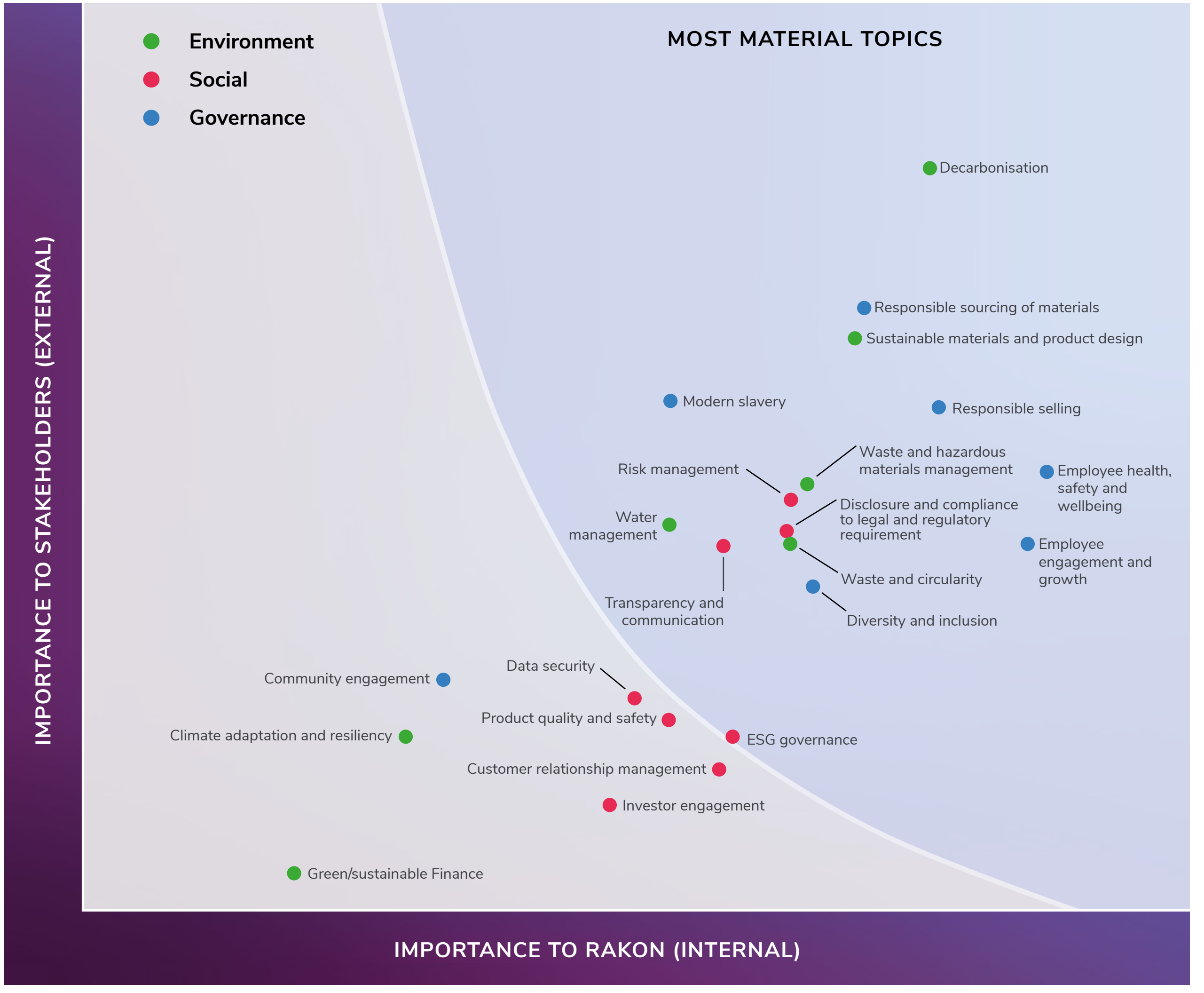
MATERIALITY ASSESSMENT – WHAT OUR STAKEHOLDERS THINK

In FY22 we undertook an assessment to identify the most important ESG aspects for Rakon. This assessment entailed:

- a desktop review of Rakon's own information and external information, including current trends, peer analysis, media reports
- stakeholder engagement with institutional and other investors, potential investors, senior management and staff

The output of this work in 2022 is illustrated in the Materiality Matrix shown here. The matrix illustrates the relative importance ratings of each ESG related topic to our external and internal stakeholders. These ratings inform the priorities outlined in the table on page 49 however we remain focused on all ESG related topics as these are fundamental to sustainability and how we govern and manage our global business and operations.

RESULTS OF OUR MATERIALITY ASSESSMENT



Management commentary
(no financial statements)

OUR PRIORITY AREAS

The table below summarises and defines the environmental, social and governance topics that Rakon and its stakeholders believe are most material to the company. They are wide-reaching and impact most parts of our operations.

From these topics, we have identified the areas where we should focus our efforts to improve sustainability. As we establish and implement improvement initiatives, we are concurrently developing our framework to support the measurement and reporting of our performance across these areas.

	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 differ. 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.

Management commentary
(no financial statements)

Improving our environmental impact

We recognise the importance of protecting the environment and our Corporate Environmental Policy sets out our commitment to achieving environmental best practice.

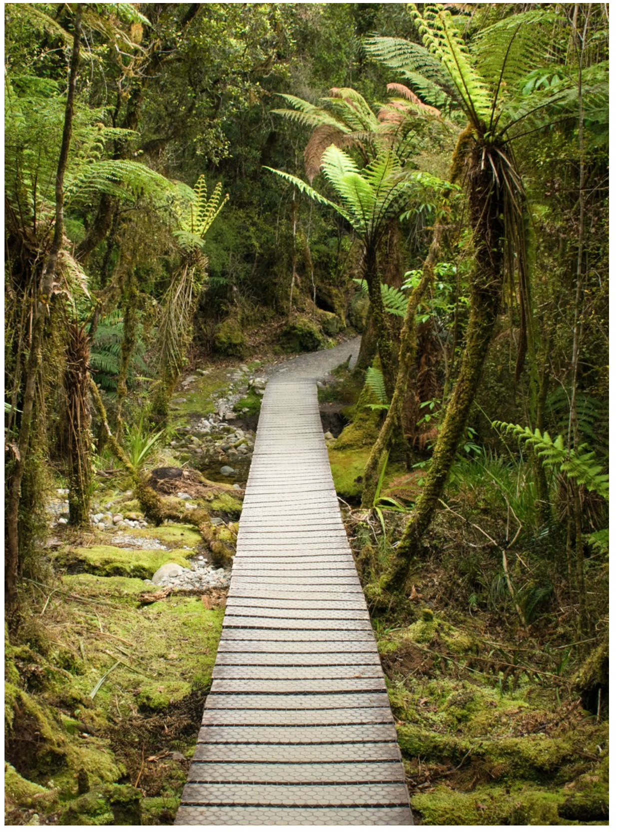
We are highly conscious of the need to protect the world's environment and be efficient in the use of energy and natural resources. We aim to develop environmentally friendly products and technologies through our design and development processes, and endeavour to use appropriate methods to dispose of and treat our wastes to prevent pollution.

Our Environmental Management System (EMS) is central to meeting our customers' expectations, achieving continuous environmental improvement and maintaining compliance to applicable laws and regulations relating to the protection of the environment and the welfare of our employees.

As part of this commitment. Rakon is certified to ISO14001 standard at its sites in Auckland, New Zealand and Bengaluru, India. This standard sets out the requirements for our EMS.

We have been reporting to CDP (formerly known as the Carbon Disclosure Project) since 2010. The information we measure across our global operations includes refrigerant use and the consumption of carbon dioxide, electricity, fuel and natural gas. CDP, along with other ESG focused platforms enables our customers to access information about our environmental practices, management of risks and opportunities and improvement initiatives and to support their assessment of their own carbon footprint.

Over the past year we have made good progress on improving our processes for measuring and reporting our environmental performance. Our environmental metrics include measurement of greenhouse gas (GHG) emissions, electricity usage, waste to landfill and water consumption. With these improvements we will be able to focus on setting meaningful targets to support our environmental management goals.



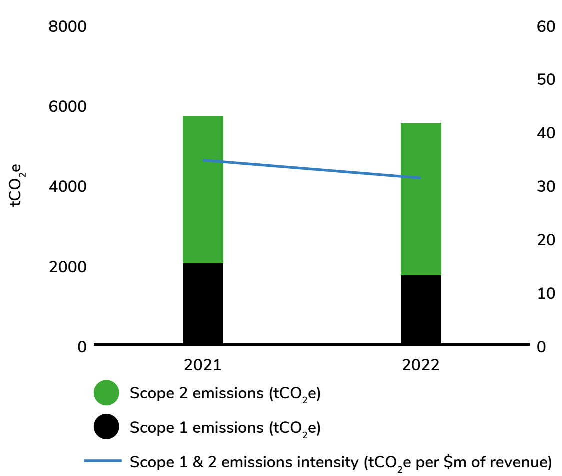
Management commentary
(no financial statements)

GREENHOUSE GAS (GHG) EMISSIONS

Rakon's most meaningful climate change metrics relate to GHG emissions. We currently measure our Scope 1 (Direct) and Scope 2 (Indirect Energy) GHG emissions and have a project under way to measure and disclose Scope 3 (Other Indirect) GHG emissions for FY25 and onwards.

Our latest GHG emissions across our global operations by calendar year and recent history are shown in the graph below:

GHG EMISSIONS



Currently Rakon's principal sources of GHG emissions are electricity usage in our operations to run offices, factories and manufacturing equipment and processes and the use of carbon dioxide in our production process.

The decrease in total Scope 1 & 2 GHG emissions between 2021 and 2022 has been driven mainly by reduced carbon dioxide use in production processes at Rakon New Zealand (Scope 1).

Total Scope 1 & 2 GHG emissions intensity (tonnes of CO_2e per $m of revenue) has reduced due to these factors as well as continuous improvement activity to find energy efficiencies in production processes and other activities.

The CO_2 reduction was primarily achieved as a result of the commencement of a project to switch from the use of CO_2 to N_2 in the temperature testing ovens used in the New Zealand manufacturing process. This decrease was partially offset by increased energy usage as production output increased.

Targets

While we measure our GHG emissions and have commenced initiatives focused on reducing our Scope 1 and 2 GHG emissions, we have not yet set reduction targets that apply across our global operations.

Our new manufacturing facility in India is expected to impact Rakon's Scope 1 and 2 GHG emissions, however we do not yet understand the full extent of this impact. Consequently, our initial Scope 1 and 2 emissions reduction targets will be established in the next financial year once the facility is fully operational.

Rakon is working towards becoming a Toitū carbonreduce certified organisation and expects to work closely with Toitū Envirocare to audit and measure our GHG emissions and implement a reduction strategy as we work towards achieving certification. Our targets will build on the GHG emissions reductions achieved since 2021 as well as aligning with the goals of the Paris Agreement. They will also be realigned and based on financial years.

Management commentary
(no financial statements)

OUR MANUFACTURING OPERATIONS

New Zealand

Our New Zealand manufacturing operation retained its ISO14001 (Environmental Management System Certification) during the year with zero non-compliances. New Zealand's EMS is regularly reviewed following the Plan-Do-Check-Act methodology, and a continuous improvement approach is taken with EMS targets based on the last two years of data.

During the year, we commenced a project to convert our temperature testing ovens (for oscillator production) from using CO_2 to using N_2. While the conversion is not yet complete, we are already seeing a significant reduction in our CO_2 usage, and expect that once fully complete, it will further contribute to ongoing CO_2 reduction efforts.

Electricity consumption correlates to the relative production volumes of products and is affected by some products requiring more electricity to manufacture than others.

	Calendar Years	
Measure	**2021**	**2022**
Electricity Consumption (MWh/Year)	4,830	4,785

Total water consumption in New Zealand increased by 0.6% against the prior year, reflecting a different product mix and associated water requirements for production and staff. Our New Zealand operation's principal use of water is in the manufacturing cleanrooms, as well as for general staff and cleaning requirements.

	Calendar Years			
Measure	**2019**	**2020**	**2021**	**2022**
Water usage (cubic metres)	11,391	10,982	11,033	11,122

While the percentage of waste recycled has increased, the tonnage of waste to landfill has also increased. The increase in waste to landfill has been largely due to recycling options in New Zealand being curtailed as a result of overseas recycling agencies ceasing import of recycling from New Zealand, and some of Rakon's plastic waste (e.g. plastic reels) having a fire retardant compound which is incompatible with recycling. To date, efforts to introduce more environmentally friendly alternatives have not been successful. There are ongoing initiatives in place to recycle e-waste, metal parts and other plastics. Rakon remains focused on formalising and achieving a waste reduction target for the New Zealand operation.

	Calendar Years			
Measure	**2019**	**2020**	**2021**	**2022**
Waste to landfill (tonnes)	13.02	17.7	25.58	29.51

	Calendar Years			
Measure	**2019**	**2020**	**2021**	**2022**
Waste recycled (tonnes)*	N/a	N/a	21.41	29.35
Percentage of waste recycled*	N/a	N/a	45.6%	49.9%

*-N/a – not applicable that year

Management commentary
(no financial statements)

France

In France we are continuing to focus on energy reduction and have practically completed the installation of LED lighting across all sites during the year. At our Pont-Sainte-Marie operation, we have commenced initiatives to reduce energy required for heating, including the reduction of heat loss through windows and through reprogramming the clean room electronic handling system to reduce energy consumption outside working hours.

At our operation in Gennevilliers, we have successfully completed a compliance project to reduce fume exhaust on production machines.

India

Rakon's existing facilities in Bengaluru are certified ISO14001 (Environmental Management System Certification), and in 2022 these facilities obtained ISO14001 re-certification with zero non-compliances.

In the past year, Rakon India has been particularly focused on the construction, fit out and certification of its new manufacturing facility.

Our new world-class manufacturing Centre of Excellence is incorporating sustainable building practices around the use of water and energy. New sustainability targets will be set for the facility and disclosed in next year's report.

Management commentary
(no financial statements)

CLIMATE ROADMAP

In December 2022, the External Reporting Board (XRB) established a mandatory Climate-Related Disclosures (CRD) regime in New Zealand. Rakon, as an NZX-listed entity, is required to report under the CRD regime for the first time, for its financial year ending on 31 March 2024.

As we prepare for mandatory reporting in FY24, our approach this year is to report in accordance with the recommendations of the TCFD where we can. Our detailed report is on pages 128–135. The table below provides a timeline for the actions we are taking as we prepare for mandatory reporting.

Pillar	Action	FY23	FY24	FY25
Governance Disclose Rakon's governance around climate-related risks and opportunities	Commence climate change education programme	•		
	Update structures and documentation to include climate change risk	•		
	Establish board level monitoring of climate change action programme	•		
	Include climate-related risks & opportunities in strategy processes at board and management levels		•	
	Include climate-related performance metrics in remuneration policies		•	
Strategy Disclose actual and potential impacts of climate-related risks and opportunities on Rakon's business, strategy, and financial planning	Complete initial review of expected climate change impacts on strategy & business model	•		
	Identify significant climate change risks & opportunities at global level	•		
	Carry out initial global level scenario analysis for 3 scenarios	•		
	Update the initial review of climate change impacts on strategy & business model		•	
	Expand scenario analysis and the global level assessment of climate change risks & opportunities to include local factors		•	
	Start transition planning activity for the net zero future		•	
	Quantify estimates of current and anticipated financial impacts for material climate risks & opportunities			•
	Complete initial transition plan for the net zero future			•
Risk Management Disclose how Rakon identifies, assesses, and manages climate-related risks	Establish climate change risk management framework	•		
	Develop and refine climate change risk management framework		•	
Metrics & Targets Disclose the metrics and targets used to assess and manage Rakon's relevant climate-related risks and opportunities where such information is material	Measure and disclose Scope 1 & 2 GHG emissions	•		
	Establish initial Scope 1 & 2 GHG emissions reduction targets		•	
	Begin process to measure Scope 3 GHG emissions		•	
	Introduce other metrics & targets required for CRD, including cross-industry metrics, industry-based metrics, other relevant KPIs		•	
	Review initial Scope 1 & 2 GHG emissions reduction targets			•
	Complete the first annual measurement of Scope 3 GHG emissions, disclose and set initial reduction targets			•

Management commentary
(no financial statements)

Our supply chain
People and practices

Rakon recognises that visibility of labour practices, sources of materials and end use of products are important issues for many of our stakeholders including customers, suppliers, investors, employees and regulators.

In addition to addressing these matters in our Supplier Code of Conduct and broader Business Code of Conduct, Rakon has codes and policies which set out how we approach the sourcing of materials, products and labour as well as who we sell to.

Key codes and policies include our Supplier Code of Conduct, Trade Compliance Policy, Conflict Minerals Statement, Slavery and Human Trafficking Statement and Whistleblowing (Protected Disclosure) Policy.

Rakon's standard terms of procurement require our suppliers to comply with our Supplier Code of Conduct and Conflict Minerals Statement as updated from time to time. Our Supplier Code of Conduct addresses our high expectations regarding our suppliers' responsibility for and attention to business ethics, health and safety, environment and sustainability, employees' rights and quality and management systems.

In FY23 we reviewed our existing code to ensure it is readily understood and will support our own commitment to continuous improvement and evidence-based responsible procurement including in relation to climate change and Modern Slavery. The Supplier Code of Conduct supports engagement with suppliers such as occurred in FY23 when a survey of 61 of our direct and indirect material vendors all responded confirming they do not buy or are not aware of indirectly buying out of the Xinjiang region in China.

Rakon's standard terms of sale require our customers' compliance with applicable trade laws and our Trade Compliance Policy sets out Rakon's own responsibility for compliance with trade laws, including export controls and restrictions in each of the countries in which Rakon designs and manufactures products, including application for export permits or licences in relation to some exports.

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 in all the countries where we do business.

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. Additional customer due diligence is required to be undertaken where Rakon is aware a product may have a military end-use.

Staff training, business management system protocols and senior management oversight and escalation processes support compliance. Compliance training with global sales team members was undertaken in FY23. Compliance assurance reporting is required by the Board bi-annually.

Management commentary
(no financial statements)

Making positive social contributions

As a global employer, Rakon is committed to actively and positively contributing 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.

India

In India, under local corporate responsibility requirements, our Rakon team has identified two local charitable organisations to support and invested over $50,000 to support their provision of health-related services to the elderly and the young in its local area. In particular, the Rakon India team has forged a strong partnership with the Swami Vivekananda Youth Movement (SVYM), which provides 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 support a local aged care facility, Shri Sarva Dharma Sharanalaya Trust, which provides assisted living, medical support, and other special services for senior citizens with chronic and progressive health related requirements.

France

In France, we participate in a government initiative to support engineering students by offering intern programmes and financial assistance with their studies. This creates 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. We also support new employees with accommodation assistance. This year, our French team held a fundraising day for the Men's Prostate Cancer Fund, and donated to the "Paris Curie Institute".

United Kingdom

Our Research and Development centre in the United Kingdom, has continued its long-term assistance of a local charity radio station at the nearby Princess Alexandra hospital through advertising support.

New Zealand

In New Zealand, we regularly provide study opportunities to young engineering students by offering scholarships to Auckland University's Engineering school which aligns with our long history of fostering talent and our continuing strategic focus on technology leadership.

We also support a number of New Zealand charities each year, in particular those focused on improving wellbeing and quality of life of our tamariki (next generation) and with strong connections to our Rakon team members.

Shri Sarva Dharma Sharanalaya Trust.

Rakon India team members meeting residents at the Shri Sarva Dharma Sharanalaya Trust facility.

Over the past year, we have donated to NZME Auckland Special Children's Christmas Party, Radio Lollipop Appeal, Burn Support Group Charitable Trust, Remuera Lion's Club, Kidney Kids, Koru Care, Kids Big Day Out and Westpac Helicopter Trust. Our New Zealand team also held a fundraising day for Gumboot Friday with proceeds helping to provide youth counselling.

Management commentary
(no financial statements)

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 2023, the company's corporate governance practices complied with the recommendations in the NZX Corporate Governance Code (17 June 2022). The Board recognises the Code has been updated with effect from 1 April 2023 and will review its practices against the new Code and report on its compliance with the same in the company's 2024 Annual Report.

The information in this Annual Report is current as at 23 May 2023 and has been approved by the Board. The key corporate governance documents referred to in this report are available on Rakon's website at: www.rakon/investors/corporate-governance

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).

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 wellbeing, 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 provided to all new employees. The Handbook 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 recognises it is necessary to use a range of methods and approaches over time to promote awareness and obtain assurance of understanding and compliance.

The Business Code of Conduct requires Directors and employees to promptly report material breaches of the Code. Rakon's Whistle Blowing (Protected Disclosure) Policy, reviewed in December 2022 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. Regular reminders of the purpose and meaning of this policy are provided to staff and Directors including advice in relation to the commencement and end of restricted trading periods. Details of Directors' shareholdings as at 31 March 2023 are set out in the Shareholder Information section on page 125. 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.

Management commentary
(no financial statements)

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 Chief Executive Officer. This delegation and further sub-delegation to senior management and their direct reports is subject to financial controls and limitations advised from time to time as set out in Rakon's Delegation of Authority Policy and further detailed in specific business unit 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.

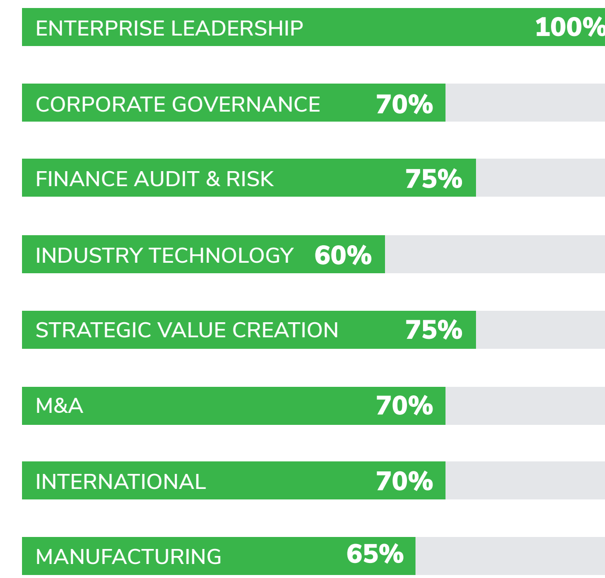
While the appointment of new Directors is the responsibility of the whole Board, the People Committee Charter outlines the Committee's particular duties and responsibilities in relation to the selection and appointment of new Directors and succession planning.

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 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. To ensure a better cadence of director rotation the director rotation schedule has been adjusted to provide for two of the directors to retire and stand for re-election, if eligible, earlier than their three-year term since their last election.

DIRECTORS' SKILLS MATRIX



Management commentary
(no financial statements)

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.

Information about each of Rakon's Directors is available on the Rakon website and on pages 42–43. The company maintains an interests' register and particulars of the entries made in the interests register during the year ended 31 March 2023 in relation to Directors' interests are disclosed in the Shareholder Information section on pages 125–127.

Board meetings and attendance

The Board meets as often as it deems appropriate, including sessions to review the company's performance against agreed plans, and to review Rakon's strategic direction and forward-looking business plans. Video and/or phone conferences are used as required to accommodate overseas based director, director travel requirements and inclement weather restricting local travel.

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 2023. In total, there were 11 Board meetings, four Audit and Risk Committee meetings and three People Committee meetings. Directors also attended the two day FY23 Strategy Workshop and the 2022 Annual Meeting.

	Board Meetings	Audit & Risk Committee	People Committee	Strategy Workshop & Annual Meeting
Total number of meetings held	**11**	**4**	**3**	**3**
Lorraine Witten	11	4	3	3
Sinead Horgan	11	4	–	3
Keith Watson	11	1	3	3
Steve Tucker	11	4	–	3
Keith Oliver	11	–	3	3
Brent Robinson	10	–	–	3
Roger Yao: Observer for Yin Tang Tseng[1]	11	–	–	3
Bruce Irvine[2]	1	–	–	–

1 Roger Yao is an observer for Director Yin Tang (Tony) Tseng, with the consent of the Board. 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 Bruce Irvine resigned with effect from 1 April 2022 after chairing the meeting of the Board held on 1 April 2022.

Management commentary
(no financial statements)

Diversity

At Rakon we are committed to having a workforce that reflects the diverse communities in which we operate and our customer base, and to ensuring that the unique strengths and characteristics of our employees are valued and celebrated.

We inherently recognise the importance of inclusion and diversity in helping to deliver our business objectives, fulfil the needs of our customers and create a high-performing, values-driven culture. Committing to inclusion and diversity means incorporating inclusion and diversity into our talent acquisition, talent management, succession management processes, and into our values and culture.

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 set two key diversity and inclusion objectives which were continued through FY23, 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 must 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 teams is set out in the People section pages 38–40.

As at 31 March 2023, women represented 29% (FY22: 25%) of Rakon's Directors and 22% (FY22: 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 2023 and as at 31 March 2022 is set out in the table below. In that table the Chief Technology Officer, who is an Executive Director, is included as a Director, and Officers are the Chief Executive and other direct reports of the Chief Executive Officer having key functional responsibilities.

Date of determination	31 March 2023		31 March 2022	
Directors				
Females	2	29%	2	25%
Males	5	71%	6	75%
Officers				
Females	2	22%	2	22%
Males	7	78%	7	78%

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 subject matter experts and 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. During the year, Rakon directors undertook training and development relevant to climate change reporting, capital structure and takeover response.

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. Following changes to the Board and the appointment of the new Chief Executive as announced in late FY22, the Board focused on the establishment of the new governance team. The Board initiated a Board Evaluation process in 2023 using the Institute of Directors' Kickstart Programme. Following receipt of the results of the evaluation survey, the Directors have a programme of work to identify the areas of focus for continuous improvement in the Board's administration, operation and stewardship.

Management commentary
(no financial statements)

The charters of the Board's Committees 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. Self-review of each Committee is scheduled to be undertaken in FY24 being a year since the membership and chairs of the Committees were changed.

Independence

The Board currently comprises seven Directors: six non-executive Directors, and one executive Director. The executive Director 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 2023 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. None of the independent directors has been a director for more than six years, none has a significant shareholding in Rakon and none has been an employee of the company, the auditor or an adviser. The Board 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, and builds these sessions into the annual Board work plan.

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 Chief Executive Officer shall not be the same person.

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.

Audit and Risk Committee	People Committee
Membership	
• Sinead Horgan (Chair), • Lorraine Witten, • Steve Tucker	• Keith Watson (Chair), • Lorraine Witten, • Keith Oliver
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. Its 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, their appointment and removal. • Oversight of risk management framework, risk policies, risk appetite and risk reviews including climate-related risks. • Review of the adequacy and effectiveness of internal controls. • Oversight of insurance programme and treasury management.	Assist the Board in establishing coherent human resources, remuneration and Director nomination policies and practices, to support the successful management of Rakon. Its duties and responsibilities include: • Review of human resources strategy, organisational structure and management succession planning, • Review employee incentive schemes, remuneration for the Chief Executive, senior management and Directors. • Oversight of compliance with human resources and health and safety legislation and policies. • Oversight of Director succession planning, selection, appointment and evaluation. • Review induction and training programmes for new and existing Directors. • Review and monitor setting and implementation of diversity and inclusion policy and objectives.

Management commentary
(no financial statements)

The Committees review and analyse policies and monitor their implementation, 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.

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.

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 professional accounting qualifications and financial and business experience.

Management may attend Committee meetings at the invitation of the Committee Chairs. Under the Whistleblowing (Protected Disclosure) Policy a person seeking to make a disclosure about a wrongdoing or suspected wrongdoing may contact the Chair of the Audit and Risk Committee.

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. All three of the People Committee members are independent Directors.

Other Committees

The Board Charter specifically requires the Board to assess regularly whether there is a need for any further standing committees. The Board expects 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. In FY23, the Board participated in a training session provided by external legal advisers and has access to comprehensive current Takeovers Guidance in the Directors' 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 about its purpose and importance. Continuous disclosure is a standing agenda item for each Board meeting. At each meeting the Board considers whether there is any relevant material information that should be disclosed to the market and minutes the outcome of that consideration whether or not any disclosure obligation is identified. In addition to all information required by law, Rakon also seeks to disclose sufficient meaningful information, including financial and non-financial information, to ensure stakeholders and investors are kept well-informed about the company.

Management commentary
(no financial statements)

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 2023.

For the financial year ended 31 March 2023, 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 facilitate the 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.

Non-financial information

Having implemented a change in the approach to annual reporting in FY22, Rakon combines its 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 carried out a formal process to understand Environmental, Social and Governance (ESG) priorities including engagement with stakeholders who helped inform the focus of the development of our formal framework for mature sustainability reporting. Through FY23 Rakon has continued to follow the roadmap developed in 2022.

As anticipated in our FY22 annual report, the principal focus for FY23 has been to ensure Rakon is prepared for mandatory climate reporting in 2024 under the Climate-related Disclosures (CRD) regime in New Zealand established by the External Reporting Board (XRB). In addition, Rakon has continued its focus on developing its wider ESG Framework and pursuing initiatives that address our material ESG topics. For further information on our progress through FY23 see page 20.

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 to the Remuneration section at page 120.

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 to ensure appropriate risk assurance processes are implemented. The Committee's work plan and meeting schedule provide dedicated time for review of the company's risk management framework. The Committee is required to report its findings to the full Board.

The Board and management are focused on the continuous improvement and effectiveness of Rakon's risk management framework. The Board recognises that risk is anything that could potentially impact on Rakon's ability to achieve its business goals and objectives and therefore risk management is interconnected with the Company's strategy and business plan.

In FY23 Rakon engaged external risk advisory services to assist with a review of its risk management framework including its risk policy, risk categories, risk appetite, risk rating methodology, risk register, risk mitigation plans and risk reporting.

Management commentary
(no financial statements)

Workshops were held with senior management and the Board to facilitate and review Rakon's risks and risk appetite. Rakon's risk management framework is designed to ensure that strategic, operational and financial risks, both existing and emerging: are identified; are assessed as regards likelihood of occurrence and impact; have risk mitigation plans; have defined management accountability; and are reviewed on an ongoing basis.

The risk appetite is set by the Board and reviewed regularly. Key risks are those risks with material implications to Rakon. Management is required to report key risks to the Audit and Risk Committee and Board for further review and oversight including reviewing them relative to the Board's appetite for risk and the effectiveness of the implementation and maintenance of the risk management and internal control systems.

A high level overview of key risks for Rakon is set out in the following table.

Rakon's key risks include

Issue	Risk Description	Controls and Mitigations
Health, Safety and Well-being	Employee workplace accidents and illness	Rakon maintains a global focus on health, safety and well-being. Information on the management of health, safety and well-being across Rakon's global operations is provided regularly to the Board, including incident reporting, health and safety employee meetings, drills, audits, training and critical risks.
Product Quality	Defects in product causing losses or damage to customers or public	Rakon maintains global quality management systems (ISO certified at main manufacturing sites in New Zealand and India) and strong cultural focus on quality and regular comprehensive reporting to the Board.
Competition and Technology Disruption	Competing technology and technology disruption and commoditisation	Rakon maintains significant investment in R&D and a strategic focus on technology leadership in the frequency control product industry.
Business Continuity	Catastrophic events and supply chain disruption	Rakon maintains business continuity protocols to support business management systems and a focus on dual sourcing and inventory management.
Access to Markets	Geo-political issues and climate change affecting suppliers of parts and product sales	Rakon maintains a strategic diversification of global suppliers, product lines, customers and operating locations.
CyberSecurity	Cyber-attack or data breach	Rakon maintains a continuous improvement process including policies, practices and control mechanisms to protect personal, customer business information and to address risk of cyber attacks and data breaches.

Management commentary
(no financial statements)

In conjunction with Rakon's risk management framework Rakon reviews its insurance programme annually to ensure it maintains an appropriate level of insurance cover for its insurable risks. Annual insurance planning forms a key part of the annual workplan of the Audit and Risk Committee.

Details of Rakon's financial risk management are available in section 25 of the Notes to the Financial Statements on page 106.

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 to prevent harm and promote well-being for employees, contractors and customers and for the operation of a successful business.

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.

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 risks 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 strategic and financial planning. In FY23 Rakon has prepared its first climate disclosures published in this annual report at pages 128–135.

Management of waste and hazardous materials, water and carbon emissions and climate adaptation and resiliency were recognised as important topics by stakeholders during the recent assessment of Rakon's Environmental, Social and Governance materiality issues under taken in FY22. The examination of climate-related risks formed part of the work contributing to the Climate Disclosure report at pages 128–135.

Management commentary
(no financial statements)

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 2023, 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 and audit fee, and to review and provide feedback in respect of the annual audit plan. The Charter also provides for the Committee to ensure the audit partner from the external audit firm is changed every five years. A comprehensive review and formal assessment of the independence and effectiveness of the external auditor is undertaken periodically. The current audit partner has been involved as Rakon's audit partner for two years. The Audit and Risk Committee also assesses the auditor's independence on an annual basis. The Committee routinely allows time to meet with the external audit partner without management present.

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 FY23 were non-audit related and involved the provision of advice. 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 at section 6 in the Notes to the Financial Statements in this 2023 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 is asked to provide the Audit and Risk Committee with written confirmation that, in their view, they were able to operate independently during the FY23 audit.

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 2022 Annual Shareholders' Meeting and is expected to be in attendance at the 2023 Annual Shareholders' Meeting.

Internal Audit

Rakon has a number of internal controls overseen by the Audit and Risk Committee and/or 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 plans, insurance, health and safety procedures, conflicts of interest registers, processes for prevention and identification of fraud and legislative compliance review processes.

The company does not presently have a permanent in-house or externally resourced internal audit function. From time to time, and as required, external providers are engaged to review its systems and internal controls. To maintain its ISO (International Standard Organisation) accreditation for a number of its management systems including its Quality Management System and Environmental Management System Rakon is subject to rigorous, regular independent audits.

The Board considers an assurance programme providing for regular review of key processes and controls supporting critical business operations, strategic objectives and risk management is an important arm of its governance framework. In FY24, the Board plans to formalise an assurance programme aligned with its recent review of Rakon's risk management framework.

Management commentary
(no financial statements)

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 engaged with investors, potential investors and investor representatives to inform its assessment of its material Environmental, Social and Governance issues. In FY23, the new Chief Executive Officer and Chair made themselves available to individual shareholders and shareholder groups to introduce themselves and talk about the company and their aspirations for the company.

Rakon maintains a website: www.rakon.com where shareholders and other stakeholders may obtain information about the company, financial and other information released to the market, up-to-date product information and key governance information.

The annual Corporate Governance Report is available on Rakon's website in the relevant annual report.

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 events
- Ad hoc investor presentations to institutional investors and retail brokers
- A dedicated Manager of Investor Relations and Communications

Rakon maintains:

- 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 notifications 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. In 2022, Rakon's annual meeting was a hybrid meeting allowing those not present at the meeting venue in Auckland, New Zealand to actively participate in the meeting. Shareholders and their proxies were able to vote and ask questions and to view the live presentations whether they attended the meeting in person or online. Rakon believes this change better recognises the wide geographic dispersion of shareholders in New Zealand and overseas as well as offering greater choice to shareholders and other stakeholders.

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 email notifications of investor news from the company.

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 Corporate Governance 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 against the NZX Code.

Management commentary
(no financial statements)

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 and 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 2023 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 4 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.

Management commentary
(no financial statements)

Management commentary
(no financial statements)

FINANCIALS

06

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 2023 (FY2023) 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 73–115, of Rakon Limited and subsidiaries for the year ended 31 March 2023.

The Board of Directors of Rakon Limited authorised these financial statements for issue on 23 May 2023.

On behalf of the Directors

LORRAINE WITTEN
CHAIR

S HORGAN
CHAIR OF THE AUDIT AND RISK COMMITTEE

FINANCIAL STATEMENTS

Statement of Comprehensive Income

For the year ended 31 March 2023

	Note	**2023 $000s**	Restated 2022 $000s
Continuing operations			
Revenue	5	180,334	171,967
Cost of sales		(91,542)	(81,907)
Gross profit		**88,792**	**90,060**
Other operating income	7	401	1,634
Operating expenses			
Selling and marketing		(10,626)	(9,424)
Research and development	6	(16,979)	(14,666)
General and administration		(31,214)	(25,253)
Total operating expenses		**(58,819)**	**(49,343)**
Other gains/(losses) – net	8	2,969	(937)
Operating profit		**33,343**	**41,414**
Finance income	9	371	39
Finance costs	9	(891)	(1,945)
Share of net (losses)/profits of associates	16	(1,460)	2,382
Profit before income tax		**31,363**	**41,890**
Income tax expense	21	(8,144)	(8,779)
Net profit after tax for the year attributable to equity holders of the Company		**23,219**	**33,111**

	Note	**2023 $000s**	Restated 2022 $000s
Other comprehensive income/(losses)			
Items that may be reclassified subsequently to profit or loss			
Decrease in fair value cash flow hedges		(2,517)	(697)
Cost of hedging		(1,494)	(725)
Income tax relating to components of other comprehensive income		1,123	398
Exchange differences on translation of foreign operations		1,774	(517)
Long term incentive plan		347	108
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of equity investments – Thinxtra		(753)	(440)
Other comprehensive losses for the year, net of tax		**(1,520)**	**(1,873)**
Total comprehensive income for the year attributable to equity holders of the Company		**21,699**	**31,238**

Earnings per share attributable to the equity holders of the Company		**Cents**	Cents
Basic earnings per share	23	10,2	14,6
Diluted earnings per share	23	10,2	14,5

The accompanying notes form an integral part of these financial statements.
Refer note 6 for details regarding the restatement of Research and Development costs.

Statement of Changes in Equity

For the year ended 31 March 2023

	Note	Share capital $000s	Retained earnings $000s	Other reserves $000s	Total equity $000s
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	24	–	–	(517)	(517)
Cash flow hedges, net of tax	24	–	–	(1,024)	(1,024)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	24	–	–	(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	29	–	–	108	108
Balance at 31 March 2022		**181,024**	**(23,126)**	**(22,733)**	**135,165**
Net profit after tax for the year		–	23,219	–	23,219
Currency translation differences	24	–	–	1,774	1,774
Cash flow hedges, net of tax	24	–	–	(2,888)	(2,888)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	24	–	–	(753)	(753)
Total comprehensive income for the year		**–**	**23,219**	**(1,867)**	**21,352**
Contribution of equity net of transaction costs					
Employee share schemes					
Value of employee services	29	–	–	347	347
Balance at 31 March 2023		**181,024**	**93**	**(24,253)**	**156,864**

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

Balance sheet

As at 31 March 2023

	Note	2023 $000s	2022 $000s
Assets			
Current assets			
Cash and cash equivalents	10	21,717	39,229
Trade and other receivables	11	51,421	44,522
Inventories	12	62,614	57,321
Derivative financial instruments	25	1,100	1,345
Financial asset at fair value through profit or loss	25	96	201
Current income tax asset		362	213
Total current assets		**137,310**	**142,831**
Non–current assets			
Property, plant and equipment	13	34,387	21,388
Intangible assets	14	7,671	7,164
Right–of–use assets	15	3,435	4,792
Interest in associates	16	14,154	16,172
Trade and other receivables	11	3,615	1,941
Financial asset at fair value through other comprehensive income – Thinxtra	17	1,927	2,680
Derivative financial instruments	25	1,228	1,095
Deferred tax asset	21	3,543	1,806
Total non–current assets		**69,960**	**57,038**
Total assets		**207,270**	**199,869**

	Note	2023 $000s	2022 $000s
Liabilities			
Current liabilities			
Borrowings	18	1,635	1,297
Trade and other payables	19	29,978	36,008
Current income tax liabilities		1,688	2,457
Lease liabilities	15	1,562	2,076
Provisions	20	1,176	631
Derivative financial instruments	25	4,107	854
Total current liabilities		**40,146**	**43,323**
Non–current liabilities			
Borrowings	18	3,600	14,684
Trade and other payables	19	92	–
Provisions	20	3,057	2,817
Lease liabilities	15	2,507	3,404
Derivative financial instruments	25	940	385
Deferred tax liabilities	21	64	91
Total non–current liabilities		**10,260**	**21,381**
Total liabilities		**50,406**	**64,704**
Net assets		**156,864**	**135,165**
Equity			
Share capital	22	181,024	181,024
Other reserves	24	(24,253)	(22,733)
Accumulated profit/(losses)		93	(23,126)
Total equity		**156,864**	**135,165**

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

Statement of Cash Flows

For the year ended 31 March 2023

	2023 $000s	2022 $000s
Operating activities		
Cash provided from		
Receipts from customers	173,137	168,226
R&D grants received	2,092	2,192
Other income received	506	161
	175,735	**170,579**
Cash was applied to		
Payment to suppliers and others	(95,749)	(84,108)
Payment to employees	(58,375)	(53,947)
Interest paid	(1,004)	(1,811)
Income tax paid	(9,495)	(475)
	(164,623)	**(140,341)**
Net cash inflow from operating activities	**11,112**	**30,238**
Investing activities		
Cash was applied to		
Purchase of property, plant and equipment	(17,342)	(8,461)
Purchase of intangibles	(1,356)	(1,708)
Net cash outflow from investing activities	**(18,698)**	**(10,169)**

	2023 $000s	2022 $000s
Financing activities		
Cash was provided from		
Proceeds from borrowings	–	10,000
	–	**10,000**
Cash was applied to		
Repayment of borrowings	(10,746)	–
Lease liabilities payments	(2,472)	(2,625)
	(13,218)	**(2,625)**
Net cash (outflow)/inflow from financing activities	**(13,218)**	**7,375**
Net (decrease)/increase in cash and cash equivalents	**(20,804)**	**27,444**
Effects of exchange rate changes on cash and cash equivalents	3,292	311
Cash and cash equivalents at the beginning of the year	39,229	11,474
Cash and cash equivalents at the end of the period	**21,717**	**39,229**
Composition of cash and cash equivalents		
Cash and cash equivalents	21,717	39,229
Total Cash and cash equivalents	**21,717**	**39,229**

The accompanying notes form an integral part of these financial statements. Refer to note 10 for the breakdown of cash and cash equivalents.

Statement of Cash Flows (continued)

For the year ended 31 March 2023

	2023 $000s	2022 $000s
Reconciliation of net profit to net cash flows from operating activities		
Reported net profit after tax	**23,219**	**33,111**
Adjustments for		
Depreciation and amortisation expense	7,777	8,938
Net increase in allowance for expected credit loss	222	291
Gain on dilution of investment in Timemaker	–	(634)
Provisions provided	1,103	551
Movement in foreign exchange rates	(1,333)	(851)
Share of net profits of associate	1,460	(2,382)
Deferred tax movement	(644)	5,041
Employee share based expense	347	108
	8,932	**11,062**
Change in operating assets and liabilities		
Increase in trade and other receivables	(8,794)	(3,714)
Increase in inventories	(5,293)	(21,559)
Increase/(decrease) in provisions	785	(17)
(Decrease)/increase in trade and other payables	(7,125)	10,357
(Decrease)/increase in tax provisions and deferred tax	(612)	998
Total impact of changes in working capital items	**(21,039)**	**(13,935)**
Net cash flow from operating activities	**11,112**	**30,238**

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. 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.

3. 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 27 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 16.

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 4)
- Calculation of inventory provision (note 12)
- Valuation of the Group's investment in Thinxtra (note 17)

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.

Certain comparative amounts have been restated which the Group believes are qualitatively immaterial to the financial statements. These changes have been highlighted in notes 4, 5, 6, 13 and 14 respectively.

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 2023 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.

The External Reporting Board (XRB) of New Zealand issued three Climate Standards that set requirements for the Climate-related Disclosures (Aotearoa New Zealand Climate Standard 1 (NZ CS 1)); Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2); and the General Requirements for Climate-related Disclosures (NZ CS 3). The Climate Standards are effective from 1 January 2023, with mandatory assurance required on the Greenhouse Gas emissions included in the Climate Statements for the 2025 Annual Report. The Company will adopt the Climate Standards for the year ending 31 March 2024.

As part of preparing the Company for the introduction of the Climate Standards, management has undertaken an International Task Force on Climate-related Financial Disclosures (TCFD) gap analysis and in this year's Annual Report the Company has made climate disclosures which are progressively being aligned with the recommendations of the TCFD. At this point in time, management has not identified significant climate related risks impacting financial reporting for this year. However, management acknowledges that this assessment is an ongoing process and that an financial reporting impact may be identified in future.

f. 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 24.

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.

4. SEGMENT INFORMATION

The chief operating decision maker (CODM), is responsible for allocating resources and assessing performance of the operating segments. CODM for the Group is 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, based on synergies between the businesses not limited by geography.

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 monthly basis.

a. Segment results

Information relating to each reportable segment is set out below:

31 March 2023

	NZ $000s	France/ India $000s	France HiRel $000s	T'maker $000s	Other[1] $000s	Total $000s
Segment revenue by market						
Telecommunications	65,874	39,215	453	–	(4,961)	100,581
Global Positioning	35,287	112	233	–	(1,790)	33,842
Space and Defence	10,448	2,846	16,248	–	(640)	28,902
Other	12,223	234	5,390	–	(838)	17,009
Total segment revenue by market	**123,832**	**42,407**	**22,324**	**–**	**(8,229)**	**180,334**
Underlying EBITDA	39,117	7,580	1,642	622	(6,779)	42,182
Total assets[2]	111,435	52,032	28,126	14,154	1,523	207,270
Additions of property, plant and equipment, and intangibles	5,935	10,905	1,858	–	–	18,698
Total liabilities[3]	26,869	14,055	7,930	–	1,552	50,406

Restated 31 March 2022

	NZ $000s	France/ India $000s	France HiRel $000s	T'maker $000s	Other[1] $000s	Total $000s
Segment revenue by market						
Telecommunications	57,006	27,202	374	–	1,407	85,989
Global Positioning	27,264	43	217	–	526	28,050
Space and Defence	9,424	2,504	12,363	–	193	24,484
Other	26,740	201	5,912	–	591	33,444
Total segment revenue by market	**120,434**	**29,950**	**18,866**	**–**	**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	6,888	1,848	1,649	–	–	10,385
Total liabilities[3]	36,994	14,062	12,106	–	1,542	64,704

Following the change in reporting segments in the prior year, a review was performed over the market categorisation of customers. The categorisation of certain customers was corrected to ensure it meets the purpose and intention of reporting to the CODM. Market information reported at 31 March 2022 was restated to conform to the current period's presentation and to provide more meaningful comparison. This resulted in a decrease in Space and Defence by $1,793,000, Telecommunications by $257,000 and an increase in Global Positioning by $912,000 and Other by $1,138,000. Total revenue per segment reported at 31 March 2022 had not changed as a result of this restatement. There was no change to overall revenue.

1 Revenue is (losses)/gains on cash flow hedges apportioned to each market based on hedged currency. The Group's treasury function is carried out centrally at head office in New Zealand, refer note 25.

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% (2022: 37.07%) ownership interest, refer to note 16.

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 operating segment within the Group is performing. Management uses the non-GAAP measure of Underlying EBITDA internally, to assess the underlying operating performance of the Group and each operating segment.

Continuing operations	Note	**2023 $000s**	2022 $000s
Underlying EBITDA		**42,182**	**54,431**
Depreciation and amortisation	6	(7,777)	(8,938)
Adjustment for associate share of interest, tax and depreciation		(2,100)	(2,222)
Finance costs – net	9	(520)	(1,906)
Dilution gain on Timemaker investment	16	–	634
Long term incentive scheme	29	(376)	(148)
Other non–cash items		(46)	39
Profit before income tax		**31,363**	**41,890**
Income tax expense	21	(8,144)	(8,779)
Net profit after tax for the year		**23,219**	**33,111**

5. 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.

a. Reportable segment revenue from contracts with customers

31 March 2023

	NZ $000s	France/ India $000s	France HiRel $000s	Other[1] $000s	Total $000s
Products transferred at a point in time	123,832	42,407	19,437	(8,229)	177,447
Products and services transferred over time	–	–	2,887	–	2,887
Sales to external customers	**123,832**	**42,407**	**22,324**	**(8,229)**	**180,334**

31 March 2022

	NZ $000s	France/ India $000s	France HiRel $000s	Other[1] $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**

1 Revenue is (losses)/gains on cash flow currency hedges. The Group's treasury function is carried out centrally at head office in New Zealand, refer note 25.

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.

	2023 $000s	Restated 2022 $000s
Asia	82,516	91,005
North America	61,892	55,353
Europe	30,750	23,481
Others	5,176	2,128
Total segment revenue by geography	**180,334**	**171,967**

A review was performed over the geography categorisation of customers. The categorisation of certain customers was corrected to ensure it meets the purpose and intention of reporting to the CODM. Revenue by geography reported at 31 March 2022 was restated to conform to the current period's presentation and to provide more meaningful comparison. This resulted in an increase in North America by $26,079,000, and a decrease in Asia by $23,690,000, Europe by $2,191,000, and Others by $198,000. Total revenue reported at 31 March 2022 did not change as a result of this restatement.

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.

	2023 $000s	2022 $000s
Total current contract assets	952	1,843
Total current contract liabilities	(872)	(1,935)
	80	**(92)**

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 $1,935,000 was recognised as customer contract liabilities, and is recognised as revenue in the year ended 31 March 2023. The remaining performance obligations at 31 March 2023 have an expected duration of less than a year.

The performance obligation of the products and services transferred over time that were in progress at 31 March 2022 were mainly completed during the year, with the exception of $589,000 relating to seven projects. These are expected to be finalised in 2024. The remaining performance obligations at 31 March 2023 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.

6. EXPENDITURE INCLUDED IN NET PROFIT

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

Expenditure by nature

	2023 $000s	2022 $000s
Employee benefit expenses		
Wages and salaries	56,073	50,354
Redundancy costs	489	–
Contributions to defined plans	814	723
Increase in liability for French retirement indemnity plan (note 20)	169	325
Increase in liability for long service leave (note 20)	114	274
Long term incentive plan (note 29)	376	148
Total employee benefit expenses	**58,035**	**51,824**

	2023 $000s	Restated 2022 $000s
Depreciation and amortisation		
Depreciation on property, plant and equipment (note 13)	4,336	5,135
Amortisation on intangible assets (note 14)	1,235	1,849
Depreciation on right-of-use assets (note 15)	2,206	2,426
Total depreciation and amortisation	**7,777**	**9,410**

	2023 $000s	Restated 2022 $000s
Research and development		
Research and development expenses	19,522	16,742
Research and development government grant	(1,309)	(277)
Research and development tax credit	(1,234)	(1,799)
Net research and development expense	**16,979**	**14,666**

For the NZ segment, research and development expenses was previously aligned to the R&D grant claim. With the change in the grant scheme, introduced by New Zealand Government, the research and development calculation has been reassessed for the period ending 31 March 2022, resulting in a reclassification of $2,940,000 from general and administration expenses to research and development expenses.

	2023 $000s	2022 $000s
Fees to the auditors		
PwC	635	573
BDO Limited (Hong Kong)[1]	14	16
T S Tay Public Accounting Corporation (Singapore)[1]	11	8
MHA MacIntyre Hundson (UK)[1]	38	34
Total audit and review fees	**698**	**631**
Assurance and audit related services		
Performed by PwC India		
Certification of expenditure for the purposes of the Production Linked Incentive Scheme	–	2
Performed by PwC France		
Certification of expenditure for the purposes of the European Union subsidy for community projects	–	11
Total assurance and audit related services	**–**	**13**
Other services		
Performed by PwC France		
Statutory obligations and audit recapitalisation fees	–	10
Certification of expenditure for the purposes of the European grants on innovation projects	–	6
Total other services fees	–	16
Total fees paid to auditors	**698**	**660**

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

The Group has realigned its certain R&D team operations with its strategy. The decision was made to centralise the specific R&D team to one location that resulted in the move to a new site in UK. Staff that decided not to relocate were given the option to take redundancy.

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 11), and in the Statement of Comprehensive Income. Government grants are offset against the related expenses over the periods in which those costs are recognised.

7. OTHER OPERATING INCOME

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

	2023 $000s	2022 $000s
Other income	281	478
Sale of raw materials	44	459
Dilution gain on Timemaker investment (note 16)	-	634
Covid-19 government assistance[1]	76	63
Total other operating income	**401**	**1,634**

1 Eligible New Zealand Covid leave support subsidy

8. OTHER GAINS/(LOSSES) – NET

	2023 $000s	2022 $000s
(Loss)/gain on disposal of property, plant and equipment, and intangible assets	(33)	17
Foreign exchange gains/(losses) – net		
Forward foreign exchange contracts		
Financial asset at fair value through profit or loss	(880)	327
Revaluation of foreign denominated monetary assets and liabilities[1]	3,882	(1,281)
Total foreign exchange gains/(losses) – net	**3,002**	**(954)**
Total other gains/(losses) – net	**2,969**	**(937)**

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

9. 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.

	2023 $000s	2022 $000s
Finance income		
Interest income	371	39
Finance costs		
Interest expense on borrowings	(596)	(1,563)
Unwinding of lease make good provision	(17)	(17)
Interest on lease liabilities (note 15)	(278)	(365)
Total finance costs	**(891)**	**(1,945)**
Net finance costs	**(520)**	**(1,906)**

Interest expense rate

The average interest rate was as follows. Additional information on borrowings is presented in note 18.

- Tanarra Credit Partners 9.60% (2022: 9.11%)
- ASB facility in New Zealand 7.23% – (2022: not applicable)
- State Bank of India 10.08% (2022: 8.70%)
- HDFC Bank in India 8.75% (2022: not applicable)
- Crédit Agricole Provence Côte D'Azur facility in France 0.55% (2022: 0.25%)

10. 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. The Group did not have any overdraft balance.

	2023 $000s	2022 $000s
Cash at bank and on hand	21,717	39,229

11. 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, 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 $13,506,000 (2022: $10,500,000) representing 31.0% (2022: 32.0%) 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.

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

	2023 $000s	2022 $000s
Trade receivables	42,961	33,096
Less: allowance for expected credit loss	(1,202)	(1,002)
Net trade receivables	41,759	32,094
Prepayments	1,528	1,490
GST/VAT receivable	816	1,565
Receivables from related parties (note 28)	223	354
Other receivables[1]	10,710	10,960
Total trade and other receivables	**55,036**	**46,463**
Less non-current other receivables[1]	3,615	1,941
Current trade and other receivables	**51,421**	**44,522**

1 Other receivables includes research and development related tax credits and government grants, deposits held by bank for guarantees, advances for facility construction in India, and prepaid expenses.

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 2023					
Gross carrying amount of trade receivables	34,044	5,706	2,918	516	43,184
Expected credit loss rate	0.61%	3.43%	15.08%	69.64%	
Allowance for the expected credit loss	**207**	**196**	**440**	**359**	**1,202**
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**

The reconciliation of the loss allowance is as follows:

	2023 $000s	2022 $000s
Opening balance	1,002	690
Increase in allowance recognised in profit or loss during the year	222	321
Receivables written off during the year	(50)	–
Foreign exchange difference	28	(9)
Allowance for expected credit loss	**1,202**	**1,002**

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

12. 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

	2023 $000s	2022 $000s
Raw materials	25,272	21,658
Work in progress	27,681	25,932
Finished goods	9,661	9,731
Total inventories	**62,614**	**57,321**

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. Rakon India has also built buffer finished goods in order to limit any impact on the customers during the move to the new facility.

b. Amounts recognised in profit and loss

Raw materials recognised as an expense during the year amounted to $49,733,000 (2022: $52,614,000). Write-downs of inventories to net realisable value amounted to $9,000 (2022: $7,000). These were included in the cost of sales.

An additional inventory provision of $2,835,000 was incurred during the year (2022: nil).

c. Inventory provision

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

An inventory provision of $7,512,000 (2022: $6,930,000) is included in the inventory balances above. The carrying value of inventory items were reviewed in detail with adjustments to provisions made largely on an item-by-item basis.

During the year $2,253,000 (2022: $1,540,000) of provisioned inventory was scrapped.

13. 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.

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	5 – 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 gains/(losses) – net' in the Statement of Comprehensive Income.

c. New Rakon India manufacturing facility

Significant progress was made on Rakon India's new Centre of Excellence manufacturing facility, with construction expected to be completed during 2023 and existing manufacturing in India moved sequentially to the new site over the year. Located within the Hi-Tech Defence and Aerospace Park in Bengaluru, the facility occupies a 1,590m^2 site over three floors – providing 10,382m^2 of usable space. In line with Rakon's long term global manufacturing strategy, the additional space will allow higher production volumes for existing products and also enables products from Rakon's other global manufacturing sites to be accommodated.

	Land and buildings $000s	Leasehold improve– ments $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assets under construction $000s	Total $000s
At 31 March 2021 restated							
Cost	1,573	10,925	103,509	6,122	2,562	4,020	128,711
Accumulated depreciation & impairment	(334)	(8,977)	(93,172)	(5,341)	(2,299)	–	(110,123)
Net book value	**1,239**	**1,948**	**10,337**	**781**	**263**	**4,020**	**18,588**
Year ended 31 March 2022 restated							
Opening net book value	1,239	1,948	10,337	781	263	4,020	18,588
Foreign exchange differences	(60)	(145)	474	(11)	(21)	(90)	147
Additions	1,257	200	4,341	429	95	2,380	8,702
Disposals	–	–	(1,793)	(1,481)	–	(363)	(3,637)
Depreciation charge	(67)	(245)	(4,361)	(427)	(35)	–	(5,135)
Depreciation reversal on disposals	–	–	1,765	1,461	–	–	3,226
Transfers	–	–	981	11	4	(996)	–
Transfers from Intangibles	–	–	–	–	–	(503)	(503)
Closing net book amounts	**2,369**	**1,758**	**11,744**	**763**	**306**	**4,448**	**21,388**
At 31 March 2022 restated							
Cost	2,750	10,946	105,548	5,061	2,592	4,448	131,345
Accumulated depreciation & impairment	(381)	(9,188)	(93,804)	(4,298)	(2,286)	–	(109,957)
Net book value	**2,369**	**1,758**	**11,744**	**763**	**306**	**4,448**	**21,388**

	Land and buildings $000s	Leasehold improve– ments $000s	Plant and equipment $000s	Computer hardware $000s	Other $000s	Assets under construction $000s	Total $000s
Year ended 31 March 2023							
Opening net book value	2,369	1,758	11,744	763	306	4,448	21,388
Foreign exchange differences	68	(14)	251	14	14	(330)	3
Additions	39	260	2,762	677	266	13,338	17,342
Disposals	–	(726)	(4,787)	(408)	(113)	(8)	(6,042)
Depreciation charge	(66)	(268)	(3,457)	(504)	(41)	–	(4,336)
Depreciation reversal on disposals	–	725	4,766	401	113	–	6,005
Transfers	(97)	74	3,040	40	18	(3,075)	–
Transfers from Intangibles	–	–	31	–	–	(4)	27
Closing net book amounts	**2,313**	**1,809**	**14,350**	**983**	**563**	**14,369**	**34,387**
At 31 March 2023							
Cost	2,797	10,767	108,488	5,551	2,862	14,369	144,834
Accumulated depreciation & impairment	(484)	(8,958)	(94,138)	(4,568)	(2,299)	–	(110,447)
Net book value	**2,313**	**1,809**	**14,350**	**983**	**563**	**14,369**	**34,387**

Following a detailed review of the underlying information, the cost and accumulated balances reported at 31 March 2021 has been restated for each category of assets which were previously incorrect. Additionally, $292,000 has been reclassified to property, plant and equipment from intangible assets at this date.

Similarly, movements reported at 31 March 2022 were restated which were previously incorrect. The total net asset balance at 31 March 2022 remains unchanged.

14. 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

	Goodwill $000s	Patents $000s	Software $000s	Product development	Assets under construction $000s	Total $000s
At 31 March 2021 restated						
Cost	1,293	3,400	10,255	17,650	219	32,817
Accumulated amortisation & impairment	–	(2,719)	(9,396)	(13,410)	–	(25,525)
Net book value	**1,293**	**681**	**859**	**4,240**	**219**	**7,292**
Year ended 31 March 2022 restated						
Opening net book value	1,293	681	859	4,240	219	7,292
Foreign exchange differences	–	(38)	67	(33)	(267)	(271)
Additions	–	–	327	214	1,142	1,683
Disposals	–	–	(1,550)	(60)	–	(1,610)
Amortisation charge	–	–	(491)	(1,358)	–	(1,849)
Amortisation reversal on disposals	–	–	1,414	2	–	1,416
Transfers	–	–	161	57	(218)	–
Transfers from property, plant & equipment	–	–	–	503	–	503
Closing net book amounts	**1,293**	**643**	**787**	**3,565**	**876**	**7,164**
At 31 March 2022 restated						
Cost	1,293	3,243	9,186	17,764	876	32,362
Accumulated amortisation & impairment	–	(2,600)	(8,399)	(14,199)	–	(25,198)
Net book value	**1,293**	**643**	**787**	**3,565**	**876**	**7,164**

Following a detailed review of the underlying information, the cost and accumulated balances reported at 31 March 2021 has been restated for each category of assets which were previously incorrect. Additionally, $292,000 has been reclassified from intangible assets to property, plant and equipment at this date.

Similarly, movements reported at 31 March 2022 were restated which were previously incorrect. The total net asset balance at 31 March 2022 remains unchanged.

	Goodwill $000s	Patents $000s	Software $000s	Product development	Assets under construction $000s	Total $000s
Year ended 31 March 2023						
Opening net book value	1,293	643	787	3,565	876	7,164
Foreign exchange differences	–	38	7	65	312	422
Additions	–	10	193	429	724	1,356
Disposals	–	–	(198)	(2,719)	–	(2,917)
Amortisation charge	–	–	(428)	(807)	–	(1,235)
Amortisation reversal on disposals	–	–	190	2,718	–	2,908
Transfers	–	–	–	173	(173)	–
Transfers to property, plant & equipment	–	–	4	–	(31)	(27)
Closing net book amounts	**1,293**	**691**	**555**	**3,424**	**1,708**	**7,671**
At 31 March 2023						
Cost	1,293	3,419	9,335	16,570	1,708	32,325
Accumulated amortisation & impairment	–	(2,728)	(8,780)	(13,146)	–	(24,654)
Net book value	**1,293**	**691**	**555**	**3,424**	**1,708**	**7,671**

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. Software-as-a-Service related costs are expensed as incurred unless they are paid to the suppliers or subcontractors of the suppliers for configuration and customisation.

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 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 $5.1m (2022: $4.7m) 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 2023, 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.

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 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

2023	Assumption	Range	5 Year CAGR
India	Annual sales growth rate[1]	4% to 21%	8.6%
	Gross margin %[2]	28% to 36%	n/a

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

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. 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 24.6% (2022: 22.5%). The terminal value within the VIU assessment has been calculated using a terminal growth rate assumption of 2.5% (2022: 2.5%).

15. 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 6 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 (2022: 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 $2,472,000 (2022: $2,625,000).

a. Right-of-use assets

	Properties $000s	Equipment $000s	Motor vehicle $000s	Total $000s
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**
Opening net book value	4,757	17	18	4,792
Foreign exchange difference	159	1	2	162
Additions	592	101	–	693
Disposals	(869)	(136)	(49)	(1,054)
Depreciation charge	(2,145)	(53)	(8)	(2,206)
Depreciation reversal on disposals	869	136	43	1,048
Closing net book value	**3,363**	**66**	**6**	**3,435**
As at 31 March 2023				
Cost	10,774	152	23	10,949
Accumulated depreciation	(7,411)	(86)	(17)	(7,514)
Net book value	**3,363**	**66**	**6**	**3,435**

b. Lease liabilities

	2023 $000s	2022 $000s
Opening balance	5,480	7,690
Movements during the year		
Additions	648	147
Accretion on interest	278	365
Payments	(2,472)	(2,625)
Foreign exchange difference	135	(97)
Closing value	**4,069**	**5,480**

Current and non-current lease liabilities

	2023 $000s	2022 $000s
Current	1,562	2,076
Non-Current	2,507	3,404
	4,069	**5,480**

16. 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. 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.

Timemaker

Chengdu Timemaker Crystal Technology Co. Limited (Timemaker) is the world's largest quartz blank manufacturer and a key supplier to Rakon. The tables below provides summarised financial information for Timemaker. The information disclosed reflects the amounts presented in the financial statements of the 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. Previously, the Timemaker Group consisted of an aggregate of Chengdu Timemaker Crystal Technology Co. Limited and Shenzhen Taixiang Wafer Co. Limited. In prior year, all assets of Shenzhen Taixiang Wafer Co. Limited have been distributed and the company is undergoing voluntary liquidation.

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

Name of entity	Country of incorporation	% of ownership interest 2023	% of ownership interest 2022	Nature of relationship	Measurement method	Net investment 2023 $000s	Net investment 2022 $000s	Equity accounted profit 2023 $000s	Equity accounted profit 2022 $000s
Chengdu Timemaker Crystal Technology Co. Ltd	China	37%	37%	Associate	Equity method	14,154	16,172	(1,460)	2,382

	Timemaker 2023 $000s	Timemaker 2022 $000s
Summarised Statement of Comprehensive Income		
Revenue	37,211	61,785
Depreciation and amortisation	(4,235)	(3,592)
Interest expenses	(1,923)	(1,580)
(Loss)/profit for the period	**(3,977)**	**6,168**

	Timemaker 2023 $000s	Timemaker 2022 $000s
Summarised Balance Sheet		
Current assets		
Cash & cash equivalents	3,320	9,016
Other current assets	39,032	47,884
Total current assets	**42,352**	**56,900**
Non-current assets	**43,560**	**34,438**
Current liabilities		
Financial liabilities (excluding trade payables)	26,720	26,293
Other current liabilities	17,227	19,798
Total current liabilities	**43,947**	**46,091**
Non-current liabilities		
Other non-current liabilities	5,496	3,332
Total non-current liabilities	**5,496**	**3,332**
Net assets	**36,469**	**41,915**

	Timemaker 2023 $000s	Timemaker 2022 $000s
Reconciliation of net assets to carrying amount		
Rakon's share in %	**37%**	**37%**
Rakon's share of associate's net assets	13,520	15,538
Investment diluted	634	634
Carrying amount	**14,154**	**16,172**

Movement in carrying amount		
Opening net assets 1 April	16,172	12,333
Dividend	(176)	(156)
Equity accounted (loss)/profit	(1,460)	2,382
Dilution	–	634
Foreign exchange movement	(382)	979
Carrying amount	**14,154**	**16,172**

17. 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 2023 (31 March 2022: 7.0%). This is calculated on a fully diluted basis including the exercise of any existing options.

The Directors adopted a valuation of A$1.8 million or A$2.29 per share as at 31 March 2023 (31 March 2022: A$2.5 million or A$3.15 per share).

b. Valuation of the investment in Thinxtra at 31 March 2023

The Directors have considered whether there is an active market in Thinxtra to estimate the fair value of the investment with particular reference to historical capital raised. The Directors concluded that there is not an active market. Consequently, the Directors classified the Thinxtra investment as a level 3 valuation. Financial instruments are classified as level 3 only if one or more of the key judgements and inputs for the valuation is not based on observable market data.

Significant judgements applied

The Directors recognise there is significant estimation uncertainty and that the valuation will change significantly over time given Thinxtra's early stage of maturity; 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 in undertaking the fair value assessment applied the following significant judgements:

- considering using a combination of two valuation methods to estimate fair value; and
- assigning a weighting to each method based on the available information.

	Weighting Assigned	
	Mar-23	Mar-22
A: Discounted cash flow (discount rate 15%)	0%	20%
B: February 2020 capital raise of A$9m at A$2.29 per share	100%	80%

Change in weighting assigned and impact on valuation as at 31 March 2023

The Directors reviewed all the information available to them at 31 March 2023 and concluded that the discounted cash flow forecasts are no longer reliable for the purposes of estimating the fair value. Consequently, as at 31 March 2023, a 100% weighting is placed on the most recent capital raise. This capital raise took place in February 2020 for A$9 million at A$2.29 per share and concluded in August 2020 with an additional subscription of A$1 million at A$2.35 per share. The change in weighting resulted in the reduction of the fair value as at 31 March 2023.

However, the Directors recognise that the capital raise was undertaken some time ago and therefore the information available for the basis of determining the fair value is dated. A significant change in the key judgements applied could have a material impact on the valuation.

Despite a reduction in the valuation, the Directors believe that the investment continues to have value, particularly through the demonstrated ability of Thinxtra to raise debt through convertible notes.

18. 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.

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 and/or maintain an adequate cash balance 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:

	2023 $000s	2022 $000s
Current		
French Government loan	1,513	1,179
Other borrowings	122	118
Total current borrowings	**1,635**	**1,297**
Non-current		
Tanarra loan	–	10,000
French Government loan	3,450	4,412
Other borrowings	150	272
Non-current borrowings	**3,600**	**14,684**

b. Tanarra

During the year, the Company has repaid the balance owing in full and closed the debt facility with Tanarra Credit Partners (Tanarra). Tanarra provided a $20m debt facility, of which $10m was drawn down, and was available from 30 April 2021. The debt facility was repayable at the end of five years.

c. State Bank of India

Rakon India has an existing facility with the State Bank of India including ₹150m (NZ$3,200,000) which can be used for cash based working capital requirements, unchanged from the prior year. Process is underway for closure of this facility as Rakon India has changed their banking to HDFC Bank.

d. HDFC

In June 2022, Rakon India secured a new credit facility with HDFC bank including ₹200m (NZ$4,000,000) that can be used for funding working capital requirements. The facility is secured by inventories and debtors. The interest rate for the credit facility is 8.7% and at year end it remained undrawn.

e. Crédit Agricole Provence Côte D'Azur

The bank borrowings include a balance of €2.9m French government backed loan that was made available to Rakon France (2022: €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 five year term of the loan. This loan has certain restrictions that limits it to be used for working capital/treasury support for the French business. There are no covenants on the loan and no additional security is required.

f. ASB

On 31 August 2022, the Company entered into a contract with ASB, providing the Company access to a working capital facility of $10 million. The facility is guaranteed by the Company. ASB has also applied certain financial undertakings on the Company. During the year the Company operated within its required financial covenants. The Group is working through options to expand and ensure appropriate facilities remains available into the future.

g. Borrowings balance

Refer to note 25 for the exposure of the Group's bank borrowings to interest rate changes and the contractual re-pricing dates at the balance date.

h. 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 9.

i. Net debt reconciliation

	Other asset	Liabilities from financing activities		
	Cash/ bank overdraft $000s	Borrowings $000s	Leases $000s	Total $000s
Balance as at 1 April 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**
Cash flows to reduce liabilities	(20,804)	–	2,472	(18,332)
Acquisitions	–	–	(648)	(648)
Repayment	–	10,746	–	10,746
Foreign exchange changes	3,292	–	(135)	3,157
Interest on lease liabilities	–	–	(278)	(278)
Balance as at 31 March 2023	**21,717**	**(5,235)**	**(4,069)**	**12,413**

19. 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.

	2023 $000s	2022 $000s
Trade payables	10,802	17,215
Amounts due to related parties (note 28)	1,584	4,034
Employee entitlements	13,091	10,591
Accrued expenses	4,593	4,168
Total trade and other payables	**30,070**	**36,008**
Less non-current other payables	92	–
Current trade and other payables	**29,978**	**36,008**

20. 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 provision $000s	Long service leave $000s	Restructure provision $000s	Lease make good $000s	Total $000s
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**
Charged to the Statement of Comprehensive Income					
Additional provisions recognised	169	114	449	407	1,139
Unwinding of discount	–	–	–	17	17
Unused amount reversed	–	(36)	–	–	(36)
Used during the year	(350)	(173)	–	–	(523)
Foreign exchange	188	–	–	–	188
At 31 March 2023	**2,098**	**547**	**449**	**1,139**	**4,233**
Current portion	243	77	449	407	1,176
Non-current portion	1,855	470	–	732	3,057
Total provisions	**2,098**	**547**	**449**	**1,139**	**4,233**

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 2023.

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.

The Group has progressed on moving the UK facility to a new location. As a result, a lease make good provision of $400,000 was recognised.

d. Restructure provision

Refer to note 6.

21. 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.

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.

	2023 $000s	2022 $000s
Current tax	(8,788)	(3,738)
Deferred tax expense	644	(5,041)
Income tax expense	**(8,144)**	**(8,779)**

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	**2023 $000s**	2022 $000s
Profit before tax	31,363	41,890
Tax calculated at domestic tax rates applicable to profits in the respective countries	(8,798)	(10,950)
Foreign exchange difference in income tax calculation	48	–
Non-deductibles	(204)	(99)
Non-taxable income	21	–
Expenses deductible for tax purposes	4	2,343
Prior year adjustment	(101)	(370)
Associate result reported net of tax	(244)	496
Change in deferred tax rate	–	(109)
Recognition and utilisation of previously unrecognised tax losses	1,191	–
Tax losses for which no deferred income tax asset was recognised	(61)	(90)
Income tax expense	**(8,144)**	**(8,779)**

The weighted average applicable tax rate was 26% (2022: 21%).

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 & equipment $000s	Employee benefits $000s	Other[1] $000s	Future income tax benefit $000s	Total $000s
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**
(Charged)/credited to profit or loss	(412)	355	701	–	644
Charged to equity	–	–	1,122	–	1,122
Foreign exchange difference	4	(1)	3	(8)	(2)
At 31 March 2023	**(1,019)**	**1,834**	**2,672**	**(8)**	**3,479**

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

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.

The Group has an unrecognised carried forward tax losses of approximately €69.3m (2022: €70.0m) in Rakon France that can be used to offset future taxable income.

	2023 $000s	2022 $000s
Deferred tax assets	3,543	1,806
Deferred tax liabilities	(64)	(91)
Net deferred tax asset	**3,479**	**1,715**

c. Imputation balances

Imputation credit account with Inland Revenue:

	2023 $000s	2022 $000s
Imputation credit available for use in subsequent periods	**20,094**	**13,269**

22. SHARE CAPITAL

a. Ordinary shares

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 2023 the total number of ordinary shares that were authorised and issued, including treasury shares, is 229,055,272 shares (2022: 229,055,272) made up as follows:

- 226,961,983 are fully paid shares (2022: 226,961,983)
- 321,972 unpaid ordinary shares were on issue and held in trust on behalf of participants in the Rakon Share Plan (2022: 321,972)
- 1,771,317 unpaid ordinary shares were held by Rakon ESOP Trustee Limited for future allocation to participants (2022: 1,771,317)

At 31 March 2023, the share capital remained unchanged at $181,024,000.

b. Dividends declared – subsequent event

On 23 May 2023, the Directors approved the payment of a fully imputed 2023 final dividend of 1.5 cents per share to be paid on 8 August 2023, to shareholders on the register at 5.00pm on 24 July 2023. This dividend is not recorded in the financial statements.

23. EARNINGS PER SHARE

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

a. Basic

	2023	2022
Weighted average number of ordinary shares on issue (000s) (note 22)	226,962	226,962
Continuing operations		
Earnings attributable to equity holders of the Group ($000s)	23,219	33,111
Basic earnings per share (cents per share)	**10.2**	**14.6**

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.

	2023	2022
Weighted average number of ordinary shares on issue (000s) (note 22)	226,962	226,962
Adjustments for dilutive potential ordinary shares (restricted ordinary shares and share options)	1,601	1,302
Weighted average number of ordinary shares for diluted earnings per share	228,563	228,264
Continuing operations		
Earnings attributable to equity holders of the Group ($000s)	23,219	33,111
Diluted earnings per share (cents per share)	**10.2**	**14.5**

24. OTHER RESERVES

	Foreign currency translation reserve $000s	Hedging reserve $000s	Share option reserve $000s	OCI[1] revaluation $000s	Total $000s
At 31 March 2021	**(24,069)**	**2,028**	**3,064**	**(1,883)**	**(20,860)**
Cash flow hedges					
Fair value gains 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 gains	–	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)**

	Foreign currency translation reserve $000s	Hedging reserve $000s	Share option reserve $000s	OCI[1] revaluation $000s	Total $000s
Cash flow hedges					
Fair value loss in year	–	5,712	–	–	5,712
Cost of hedge	–	(1,494)	–	–	(1,494)
Changes in fair value of equity investments at fair value through other comprehensive income – Thinxtra	–	–	–	(753)	(753)
Tax on fair value loss	–	(1,181)	–	–	(1,181)
Transfers to revenue	–	(8,229)	–	–	(8,229)
Income tax on transfers to revenue	–	2,304	–	–	2,304
Subsidiaries	2,156	–	–	–	2,156
Associate – Timemaker Group	(382)	–	–	–	(382)
Long term incentive plan	–	–	347	–	347
At 31 March 2023	**(22,812)**	**(1,884)**	**3,519**	**(3,076)**	**(24,253)**

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 3. 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 17. These changes are accumulated within the FVOCI reserve, and transferred to retained earnings when investment is derecognised.

25. 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 24. 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.

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

	2023 Assets $000s	2023 Liabilities $000s	2022 Assets $000s	2022 Liabilities $000s
Forward foreign exchange contracts — cash flow hedges	1,741	2,796	1,743	574
Forward foreign exchange collar option — cash flow hedges	587	1,281	697	471
Total derivative financial instruments	**2,328**	**4,077**	**2,440**	**1,045**
Less: non-current forward foreign exchange — cash flow hedges	1,228	940	1,095	385
Current derivative financial instruments	**1,100**	**3,137**	**1,345**	**660**
Financial assets/ liabilities at fair value through profit or loss	96	970	201	194
Total derivative financial instruments	**1,196**	**4,107**	**1,546**	**854**

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 27 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:

	2023		2022	
	Foreign currency options	**Foreign currency forwards**	Foreign currency options	Foreign currency forwards
Notional amount ($000s)	65,304	131,571	21,520	103,376
Maturity date	Apr-23 to Nov-24	Apr-23 to Jul-25	Apr-22 to Dec-23	Apr-22 to Mar-24
Hedge ratio	1:1	1:1	1:1	1:1
Change in intrinsic value of outstanding hedging instruments	(350)		87	
Weighted average strike rate on outstanding options				
NZD/USD	0.648		0.677	
Weighted average contract rate on forwards				
NZD/USD		0.635		0.677
GBP/USD		1.22		1.32
INR/USD		83.33		77.27
JPY/USD		129.56		114.73

b. Credit risk

The Group is exposed to credit risk arising from trade customers, financial instruments (notes 17, 25a), and cash and cash equivalents (note 10). 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 11. 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 2023	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 18)	4,963	(757)	(757)	(1,513)	(1,936)	–
Derivatives (note 25)	5,047	(2,560)	(1,547)	(940)	–	–
Trade and other payables (note 19)	12,386	(12,386)	–	–	–	–
Other borrowings (note 18)	272	(60)	(62)	(150)	–	–
Lease liabilities (note 15)	4,069	(881)	(569)	(943)	(1,078)	(598)
Total financial liabilities	**26,737**	**(16,644)**	**(2,935)**	**(3,546)**	**(3,014)**	**(598)**

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 18)	4,412	(470)	(706)	(1,178)	(2,110)	–
Derivatives (note 25)	1,239	(479)	(375)	(279)	(105)	–
Trade and other payables (note 19)	21,249	(21,249)	–	–	–	–
Other borrowings (note 18)	10,390	(58)	(58)	(123)	(10,151)	–
Lease liabilities (note 15)	5,480	(883)	(949)	(1,597)	(1,916)	(121)
Total financial liabilities	**42,770**	**(23,139)**	**(2,088)**	**(3,177)**	**(14,282)**	**(121)**

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	GBP $000s	JPY $000s
31 March 2023	41,003	6,107	903	97
31 March 2022	42,833	1,657	122	(1,375)

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
	2023	2022	**2023**	2022
NZD/USD	0.6277	0.6967	0.6263	0.6947
NZD/EUR	0.5996	0.5994	0.5742	0.6260
NZD/GBP	0.5180	0.5098	0.5055	0.5304
NZD/INR	50.3190	51.8512	51.4292	52.7842
NZD/JPY	84.2502	78.2080	82.9300	85.1000

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 2022:

	2023		2022	
	Equity $000s	**Profit or loss $000s**	Equity $000s	Profit or loss $000s
USD	4,556	4,556	4,759	4,759
EUR	679	679	184	184
GBP	100	100	14	14
JPY	11	11	(153)	(153)

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 2022:

	2023			2022		
	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	12,116	(12,116)	–	10,604	(10,604)	–
Net buy GBP sell USD	724	(724)	–	159	(159)	–
Net buy INR sell USD	(1,105)	1,105	–	(201)	201	–
Net buy JPY sell USD	(736)	736	–	(725)	725	–
Forward foreign exchange contracts – held for trading						
Net buy NZD sell USD	814	2,044	2,044	(2,761)	(955)	(955)
Net buy GBP sell USD	(216)	(724)	88	(34)	(159)	(48)
Net buy INR sell USD	120	1,105	(87)	65	201	80
Net buy JPY sell USD	32	736	(134)	520	725	132

e. Market risk – interest rate

The Group adopts a policy to manage its exposure to interest rate risks 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	**2023 $000s**	2022 $000s
Financial assets (note 10)	21,717	39,229
Financial liabilities (note 18)	–	(10,000)
Net variable rate instruments	**21,717**	**29,229**
Fixed rate instruments		
Financial liabilities (note 18)	(5,235)	(5,981)
Net fixed rate instruments	**(5,235)**	**(5,981)**

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 2023 was performed on the same basis as 2022:

	2023		2022	
	Equity $000s	**Profit or loss $000s**	Equity $000s	Profit or loss $000s
Variable rate instruments	–	–	(100)	(100)

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 18 for details.

26. COMMITMENTS

a. Capital commitments

Capital expenditure contracted for at the balance date but not incurred is $3,300,000 (2022: $1,600,000).

27. 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.

The list of subsidiaries is as follows:

				% interest held by the Group	
Name of entity	Principal activities	Country of incorporation	Balance date	2023	2022
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 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.

28. RELATED PARTY TRANSACTIONS

a. Key management personnel compensation

	2023 $000s	2022 $000s
Salaries and other short-term employee benefits	5,483	4,854
Directors' fee	511	449
Total key management compensation	**5,994**	**5,303**

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.

	2023 $000s	2022 $000s
Transactions with associates		
Purchases from associate, Chengdu Timemaker Crystal Technology Co. Limited	(3,571)	(2,948)
Payables to Chengdu Timemaker Crystal Technology Co. Limited	(62)	(962)
Receivables from Rakon HK Limited	211	179
Transactions with Siward Crystal Technologies Co. Limited		
Sales	818	2,143
Purchases	(11,681)	(11,579)
Net transactions	**(10,863)**	**(9,436)**
Payables to Siward Crystal Technologies Co. Limited	(1,522)	(3,072)
Receivables from Siward Crystal Technologies Co. Limited	12	175

29. 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 is recognised 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. Rakon's Long Term Incentive Plan

Rakon's Long Term Incentive Plan (LTIP) was established on 13 December 2021. Under the LTIP, Share Rights of the Company are granted to participants based in New Zealand, 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). Employees are entitled to shares of the parent or cash payment upon vesting of Share Rights and Phantom Share Rights, respectively. There is no exercise price on these and there is no right to dividends during the vesting period.

The 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. It takes into account historical and expected dividends, and the share price fluctuation to predict the distribution of relative share performance. Employees must remain in service for a period of two and half years from grant the date. The fair value is determined by an independent expert using Monte Carlo model.

There were no cancellations or modifications to the awards.

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the grant date and amortised over the vesting 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.

The fair value of Share Rights is estimated at the grant date using the Monte Carlo model, taking into account the terms and conditions upon which the Share Rights were granted. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these Share Rights.

The fair value of the rights granted is recognised as an employee benefits expense (note 6) in the Statement of Comprehensive Income with a corresponding increase in the employee share-based payment reserve.

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 employee benefits expense (note 6) in the Statement of Comprehensive Income. The fair value is expensed over the vesting period with the recognition of a corresponding liability. 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. 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.

Performance rights granted are summarised below:

Tranche	Grant date	Type	Balance at the start of period Number	Granted during the period Number	Vested during the period Number	Lapsed/ forfeited during the period Number	Balance at the end of period Number
1	13 Dec 21	Phantom Rights	276,470	–	–	–	276,470
		Share Rights	703,244	–	–	–	703,244
2	19 Dec 22	Phantom Rights	–	282,612	–	–	282,612
		Share Rights	–	395,860	–	–	395,860
3	14 Mar 23	Share Rights	–	180,000	–	–	180,000
			979,714	**858,472**	**–**	**–**	**1,838,186**

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

	2023 $000s	2022 $000s
Expenses arising from equity-settled share-based payment transactions	347	108
Expenses arising from cash-settled share-based payment transactions	29	40
Total expenses arising from share-based payment transactions	**376**	**148**

Following are the assumptions used to simulate the future share prices:

	Tranche 1		Tranche 2		Tranche 3
	Phanton Rights	Share Rights	Phanton Rights	Share Rights	Share Rights
Fair value of Rights	245	817	82	155	56
Vesting date	25 Jun 24	25 Jun 24	25 Jun 25	25 Jun 25	25 Jun 25
Weighted average share price at grant date ($)	0.91	0.91	1.39	1.39	1.39
Risk free interest rate	4.8%	2.1%	4.5%	4.6%	4.5%
Expected volatility	45%	45%	45%	45%	45%

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 2023, balance of shares held was 321,972 (31 March 2022: 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 (2022: $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 2023 (2022: 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 Lorraine Witten. Shares held by the share plan represent approximately 0.14% of the Company's total shares on issue as at balance date (2022: 0.14%).

30. 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

- 2013/14 – no increase in taxable income (tax value $80,000)
- 2014/15 – advance payment delay (tax value $20,000)
- 2021/22 – no increase in taxable income (tax value $580,000)

Indirect taxes

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

31. SUBSEQUENT EVENTS

Refer to note 22 for the dividend recommended by the directors, to be paid on 8 August 2023.

The Directors are not aware of any other material events subsequent to the balance date 31 March 2023 that require additional disclosure.

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 2023, 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 2023;
- 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.

Other than in our capacity as auditor we have no relationship with, or interests in, 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.

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Description of the key audit matter	How our audit addressed the key audit matter
Valuation of inventories The carrying value of the Group's inventories at 31 March 2023 was $62.6 million (31 March 2022 $57.3 million) net of inventory provision of $7.5 million (31 March 2022 $6.9 million). The Group holds inventories in New Zealand, India and France. The cost of inventories reflects the cost of direct materials and where relevant, direct labour costs, including an allocation of variable and fixed overhead expenditure. Inventories are stated at the lower of cost or net realisable value. The Group has recorded an inventory provision to reflect management's best estimate of the net realisable value of inventories. Determining the provision involves significant judgement considering a range of factors including expected future consumption assumptions. Valuation of inventories is an area of focus and key audit matter for the audit due to the significance of the inventory balance, the complexity of inventory costing, and the judgements involved in estimating inventory provision. Note 12 of the financial statements describes the accounting policy and the judgements and estimates applied by management in recognising inventories.	**Our procedures included the following:** • gaining an understanding of the key process, controls and judgements surrounding inventory costing and provisioning; • testing certain controls over inventory costing; • on a sample basis, testing the cost of materials and finished goods to supporting documents; • ensuring direct labour and overhead expenditure capitalised are in line with the requirements of New Zealand Equivalent to International Accounting Standard 2 Inventories; • evaluating the reasonableness of direct labour and overhead expenditure capitalised into inventory by performing analytical procedures; • on a sample basis, testing the accuracy of inputs into the inventory provision calculation including assessing the reasonableness of future consumption estimates; • performing recalculations over the provision to ensure its mathematical accuracy and alignment with the Group's obsolescence policies; • assessing and challenging the appropriateness of the Group's provisioning by considering alternate provisioning methodologies for the most significant provisions and performing lookback procedures; • testing the net realisable value of finished goods, on a sample basis, by comparing the cost with recent sales; • attending a sample of stock counts to confirm the condition of inventories; and • reviewing the appropriateness of disclosures in the financial statements.

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Our audit approach

Overview

Overall group materiality: $1,800,000, 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, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

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 in India;
- Specified audit procedures over the business in the UK;
- Analytical review procedures were performed on the investment in Timemaker and other remaining entities.

As reported above, we have one key audit matter, being:

- Valuation of inventories

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. The Annual report is expected to be made available to us after the date of this auditor's report..

Our opinion on the financial statements does not cover the other information and we will 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

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
23 May 2023

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.

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 travel, accommodation and other expenses incurred in the course of performing their duties.

The total annual fees pool is $530,000 for six Non-executive Directors and includes a pool from which the Board may approve payment to directors who have undertaken significant additional work. Directors' fees were last reviewed and approved by shareholders at the annual shareholders meeting held in August 2021. Any future proposed increases in the level of non-executive Directors' fees will also be put to shareholders for approval.

The Rakon Board comprises six non-executive directors and one executive director who does not receive any additional fees for his role as a Director.

ROLE	DIRECTORS' FEES (effective 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 Non-executive Directors	$530,000

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 Officer 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 2023 are set out in the table below:

Director Remuneration Paid

Director	Fees paid
Lorraine Witten	$140,000
Sinead Horgan (Chair of Audit & Risk Committee)	$82,000
Keith Watson (Chair of People Committee)	$78,000
Keith Oliver	$70,000
Steve Tucker	$70,000
Yin Tang (Tony) Tseng[2]	$71,375
Brent Robinson[1]	–

1 Employed as Chief Technology Officer, received salary and benefits and did not receive any director fees.
2 Equivalent ordinary Director fee in USD.

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

Management commentary
(no financial statements)

Employees' remuneration

During the year ended 31 March 2023, the following numbers 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 bands set out below:

Remuneration	Number of employees	Remuneration	Number of employees
$100,000 – $110,000	22	$260,001 – $270,000	1
$110,001 – $120,000	25	$270,001 – $280,000	2
$120,001 – $130,000	12	$280,001 – $290,000	4
$130,001 – $140,000	13	$290,001 – $300,000	1
$140,001 – $150,000	8	$300,001 – $310,000	1
$150,001 – $160,000	7	$310,001 – $320,000	2
$160,001 – $170,000	7	$320,001 – $330,000	1
$170,001 – $180,000	7	$340,001 – $350,000	1
$180,001 – $190,000	5	$350,001 – $360,000	1
$190,001 – $200,000	8	$370,001 – $380,000	2
$200,001 – $210,000	4	$380,001 – $390,000	2
$210,001 – $220,000	4	$420,001 – $430,000	2
$220,001 – $230,000	6	$730,001 – $740,000	1
$230,001 – $240,000	3	$820,001 – $830,000	1
$250,001 – $260,000	3	$910,001 – $920,000	1

Total 157 employees

Executive remuneration

In general, executive 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.

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. In FY23 the company objectives represented 50% of the STI with achievement scaled relative to budgeted EBITDA. 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 (**LTI**) Plan for key employees including at the discretion of the Board members of the executive team. The LTI 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, the Board will issue 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 offer made in FY23 is dependent upon Rakon achieving a higher Total Shareholder Return (**TSR**) (which 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

Management commentary
(no financial statements)

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 the 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 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. At 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 LTI in FY23 was set by reference to tiers 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.

Dr. Sinan Altug was appointed Chief Executive Officer from 1 April 2022. His remuneration paid for the year ended 31 March 2023 includes a base salary, health insurance and other benefit and a STI payment in relation to FY22 and the CEO's previous role as Chief Operating Officer. There were no Kiwisaver contributions paid by the company.

The total remuneration the Chief Executive Officer received during FY23 comprised the following:

Current Year	Base Salary	Benefits	Total fixed remuneration	STI	LTI	Total Remuneration
FY23	$619,467	$50,168	$669,635	$156,090	$0	$825,725
		(a)		(b)	(c)	

(a) Benefits including medical insurance.

(b) The STI component paid in FY23 related to performance in FY22 and was awarded at 107.5% of his FY22 Base.

(c) No LTI payments were made in FY23.

Management commentary
(no financial statements)

Breakdown of CEO's pay for performance

The following tables provide a breakdown of the performance measures within the Chief Executive Officer's STI and LTI schemes, including details about the incumbent's quanta, performance and actual at-risk remuneration outcomes.

STI	Performance measures and related weighting		Achievement outcome	Underlying performance measures
	Financial	50%	Outcome to be determined in June 2023	50% Group EBIT 50% Achieving return on R&D and innovation investments
	Strategy Execution	25%	Outcome to be determined in June 2023	Organic and inorganic company growth objectives
	Talent & Culture	25%	Outcome to be determined in June 2023	Talent growth, employee culture and engagement targets.
30% of Base	Total	100%		

LTI	Performance measures and related weighting		Achievement Outcome	Commentary
FY22 31.6% of Base Salary	TSR	100%	Outcome to be measured June 2024	Share rights scheme. The grants are subject to a 3 year vesting period with the following hurdles: • Continued employment • TSR measured against the NZX50 index
FY23 39% of Base Salary	TSR	100%	Outcome to be measured June 2025	
		100%	Rakon to disclose as % of target LTI	

LTI interests granted to the CEO:

Share Rights that have been granted or vested to, or forfeited by the Chief Executive Officer as at 31 March 2023 are detailed in the following table. The Chief Executive Officer has entitlements to share rights granted in FY22 in relation to his previous role as Chief Operating Officer at Rakon, as well as in FY23.

Type of scheme interest	Grant date	Vestment date	Face value of award and & vesting at threshold	Number of share rights' granted	Summary of performance measures and targets	Number of shares forfeited	Number of shares vested
Share Rights	15 December 2021	25 June 2024	$165,107	181,436	TSR	0	Not yet applicable
Share Rights	14 March 2023	24 June 2025	$250,000	180,000	TSR	0	Not yet applicable
		(a)			(b)		

(a) The vesting conditions include a continued employment condition and a performance hurdle. The Board determines whether each of these conditions have been satisfied before vesting.

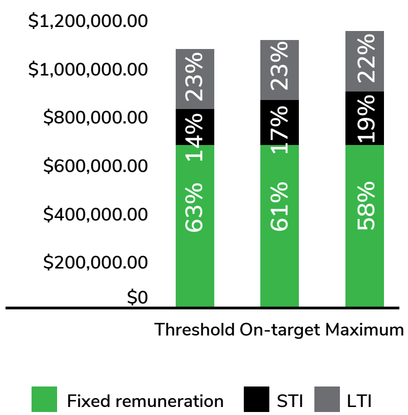
(b) To satisfy that vesting condition, the percentage change in the Total Shareholder Return (TSR) of Rakon over the vesting period must be greater than the percentage change in the NZX50 Index over the same period. If this is not satisfied, the share rights lapse.

Management commentary
(no financial statements)

CEO remuneration framework

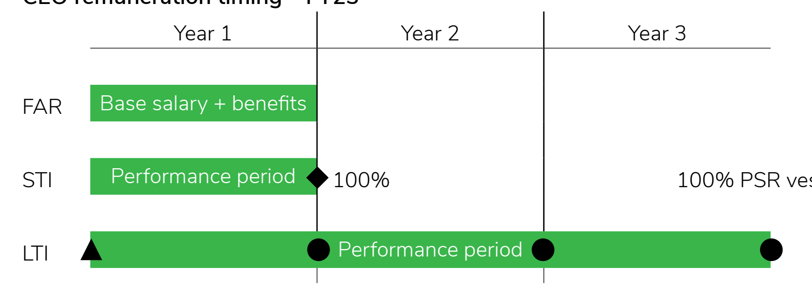
The Chief Executive Officer's remuneration structure is consistent with the remuneration structure described previously. The charts below illustrate the CEO's total remuneration (comprised of fixed, annual variable (STI) and LTI components) under threshold, on-target and maximum performance.

No LTI components vested in FY23 and STI for FY23 is determined in June 2023.



The following diagram illustrates delivery of the cash and equity remuneration components over time for FY23.

CEO remuneration timing – FY23



Management commentary
(no financial statements)

Shareholder Information 2023

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 2023 are included in the relevant bandings for remuneration disclosed in the Remuneration Information section of the 2023 Annual Report.

The following people held office as Directors of subsidiary companies at 31 March 2023:

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	Sinan Altug, Brent Robinson, Darren Robinson,
Rakon UK Limited	Sinan Altug, Brent Robinson, Darren Robinson,
Rakon France SAS	Brent Robinson
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	Lorraine Witten, Keith Oliver
Rakon PPS Trustee Limited	Lorraine Witten, Keith Oliver
Rakon India (Private) Limited	Brent Robinson, P.M. Unnikrishnan, Arun Parasnis

Directors' interests

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 Company's interests' register during the year ended 31 March 2023.

Lorraine Witten

- Appointed Chair of Rakon Limited from 1 April 2022 (March 2022)
- Appointed as Director of Rakon ESOP Trustee Limited and of Rakon PPS Trustee Limited (June 2022)
- Ceased as Director of Horizon Energy Group effective 31 August 2022 (August 2022)
- Appointed Director of Mercury Limited (August 2022)

Sinead Horgan

- Trustee Carnahan Horgan Family Trust (May 2022)
- Appointed Director and Chair of Audit and Risk Committee of Leighs Construction Limited and Leighs Holdings Limited effective 1 July 2022 (July 2022)
- Ceased as Director Taggart Earthmoving Limited effective 27 July 2022 (August 2022)

Brent Robinson

- Appointed as a Director of Quantifi Photonics Limited effective 28 April (May 2023)

Keith Watson

- Ceased as Director of Complete 3D Limited (June 2022)

Steve Tucker

- Ceased as a Director of Purpose Capital Impact Fund (February 2023)

Management commentary
(no financial statements)

Directors' shareholdings

Directors' shareholdings in Rakon Limited as recorded in the interests' register of the Company as at 31 March 2023 are set out below:

Name	Category	Shareholding
Brent Robinson	shares held with beneficial interest	34,846,237
Lorraine Witten	shares held with non-beneficial interest[1]	2,093,299
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
Steven Tucker	Shares held with beneficial interest	29,993

1 Lorraine Witten 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 2023 in respect of the number of voting products below. As at 31 March 2023, 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	4.33
Brent John Robinson	registered holder and beneficial owner	24,930,823	10.88
Darren Paul Robinson	registered holder	9,914,180	4.33
Darren Paul Robinson	registered holder and beneficial owner	24,930,823	10.88
Wairahi Investments Limited	registered holder	12,300,000	5.37

Spread of Quoted Financial Product holders and holdings as at 26 April 2023

Size of holding	Number of holders	%	Total number held	%
1 – 99	39	0.82	1875	0.00
100 – 199	73	1.53	9,491	0.00
200 – 499	238	4.98	72,289	0.03
500 – 999	357	7.47	231,341	0.10
1,000 – 1,999	736	15.39	947,900	0.41
2,000 – 4,999	1194	24.97	3,610,644	1.58
5,000 – 9,999	692	14.47	4,470,813	1.95
10,000 – 49,999	1,104	23.09	21,769,236	9.50
50,000 – 99,999	170	3.55	11,286,301	4.93
100,000 – 499,999	133	2.78	24,637,522	10.76
500,000 – 999,999	22	0.46	15,295,381	6.68
1,000,000 – 99,999,999	24	0.50	146,722,479	64.06
Total	**4,782**	**100.00**	**229,055,272**	**100.00**

Management commentary
(no financial statements)

Twenty largest Quoted Financial Product holders as at 26 April 2023

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	12,300,000	5.37
Brent John Robinson	9,915,414	4.32
Darren Paul Robinson	9,914,180	4.32
Forsyth Barr Custodians Limited <1-Custody>	8,449,745	3.69
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	5,595,349	2.44
Hobson Wealth Custodians Limited <Equities DTA Account>	5,150,000	2.25
Accident Compensation Corporation[1]	5,137,738	2.24
Etimes Group International Limited	3,697,716	1.61
F B TRUSTEE LIMITED <FERGUS BROWN FAMILY A/C>	3,000,000	1.31
Fergus David Elliott Brown	3,000,000	1.31
Michael Murray Benjamin	3,000,000	1.31
FNZ Custodians Limited	2,871,414	1.25
CUSTODIAL SERVICES LIMITED <A/C 4>	2,605,206	1.14
Hobson Wealth Custodians Limited <Resident Cash Account>	2,584,090	1.13
Forsyth Barr Custodians Limited <Account 1E>	2,450,904	1.07
RAKON ESOP TRUSTEE LIMITED	2,093,289	0.91
Phillip Malcolm Cook	1,700,000	0.74
HLR Holdings Company Limited	1,584,736	0.69
Top 20 holders of ORDINARY SHARES (Total)	**137,997,285**	**60.25**
Total Remaining Holders Balance	**91,057,987**	**39.5**

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 2023.

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 2023.

Management commentary
(no financial statements)

Climate Disclosures at Rakon: FY23

INTRODUCTION

In last year's annual report, we provided initial commentary on Rakon's proposed Taskforce on Climate-related Financial Disclosures (TCFD) disclosure approach. We noted that:

- We had 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
- In the FY23 annual report we would:
  - include our approach to climate related risks and opportunities: how they affect Rakon, and how Rakon's operations affect climate change; and
  - benchmark and track meaningful metrics against our most material impacts.

The **Taskforce on Climate-related Financial Disclosures (TCFD)** is an international organisation that was created to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing risks related to climate change. The TCFD released its climate-related financial disclosure recommendations in 2017 (https://www.fsb-tcfd.org).

Since last year's annual report was issued, the External Reporting Board (XRB) has established a mandatory Climate-related Disclosures (CRD) regime in New Zealand. Rakon, as an NZX-listed entity, is required to report under the CRD regime as a climate reporting entity for the first time for its financial year ending on 31 March 2024.

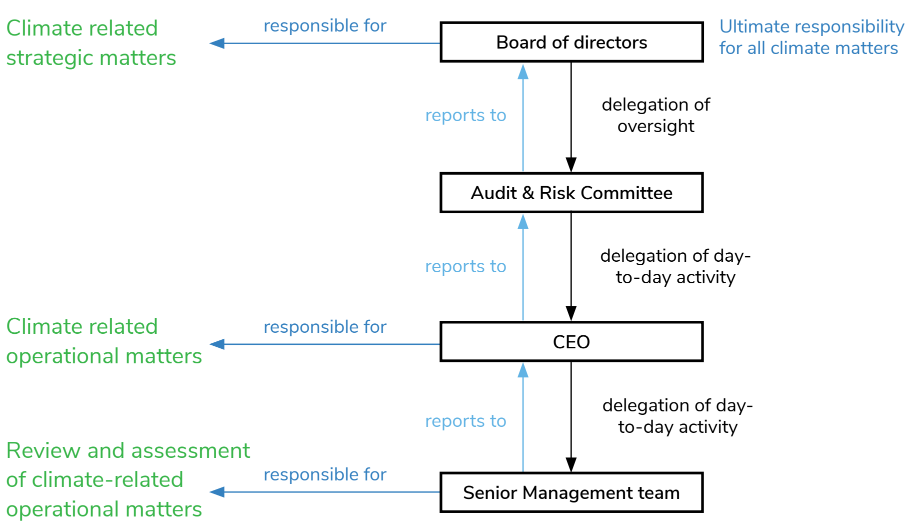
The CRD regime is based on the recommendations of the TCFD. Whilst there are limited differences in the requirements of those reporting regimes, there are many similarities, for example, reporting under four pillars as follows:

Pillar	Overview (TCFD)
Governance	Disclose Rakon's governance around climate-related risks and opportunities
Strategy	Disclose actual and potential impacts of climate-related risks and opportunities on Rakon's business, strategy, and financial planning
Risk Management	Disclose how Rakon identifies, assesses, and manages climate-related risks
Metrics & Targets	Disclose the metrics and targets used to assess and manage Rakon's relevant climate-related risks and opportunities where such information is material

In this FY23 annual report, our approach is to report in accordance with the disclosure recommendations of the TCFD where we can, as we prepare for reporting under the CRD regime for the first time for FY24. Rakon's plan for climate related disclosure is as shown in the roadmap on page 54 of this annual report:

GOVERNANCE

Role of the Board and management



Rakon's Board of directors (the 'Board') has ultimate responsibility for Rakon's approach to climate change. The Board has delegated oversight of climate-related matters to the Audit and Risk Committee, with the Chief Executive Officer (CEO) responsible for managing operational climate-related matters on a day-to-day basis. On average, the Audit and Risk Committee meets four times per year, with two of the four meetings focusing primarily on risk-related matters. The Committee reports directly to and advises the Board on climate-related matters.

During the financial year, existing governance structures and documentation have been updated to include climate-related matters within:

- the Audit and Risk Committee Charter;
- the annual workplan for the Audit & Risk Committee; and
- the standing agenda items for each meeting of the Audit and Risk Committee.
- the Board Charter
- the annual workplan for the Board

The Board maintains a strategic risk register which is reviewed at each meeting. If climate-related matters result in strategic risks they will be included within that register. The Board meets eleven times per year on average.

Rakon has commenced the delivery of a climate change education programme during the financial year. The programme has focused initially on the Board, the executive team and the senior management team as the key decision makers for the business. It has included a combination of in-person briefings on climate change from subject matter experts, reading material and access to appropriate on-line climate change resources.

As noted above, the CEO is responsible for managing operational climate-related matters on a day-to-day basis.

Where key operational climate-related risks and opportunities are identified via Rakon's ISO14001 Environmental Management System processes, their review and assessment are escalated to the senior management team who consider whether appropriate risk management actions are being taken. All key risks are required to be reported to the Audit and Risk Committee twice per year.

STRATEGY

Actual and potential impacts on business, strategy, and financial planning

We have carried out an initial global-level scenario analysis exercise to support our assessment of actual and potential impacts on business, strategy and financial planning, using the GeSI-CDP Scenario Analysis Toolkit for three scenarios as shown in the table below.

Climate-related scenarios are plausible, challenging descriptions of how the future may unfold. These descriptions are based on coherent and internally consistent sets of assumptions about the drivers of future physical and transition risk and opportunity (and the relationships between them) (www.xrb.govt.nz).

An overview of each scenario is set out below:

Scenario name	Temp. Increase[1]	Brief description of scenario[2]
Rapid Transition	1.5°C	Rapid transition to a low carbon world, limiting temperature increase to 1.5°C. High degree of transformation across the economy. Slight increase in physical climate-related impacts.
Status Quo	2.6°C	Climate-related policies and actions remain at the level of historical Nationally Determined Contributions, causing temperatures to increase to c.2.6˚C. Physical impacts of climate change increasingly damaging.
Limited climate action	4°C	Limited climate action and lack of coordination result in temperature increase of 4˚C or above. Significant disruption globally due to catastrophic physical climate impacts.

1 change in average global temperature by 2100 relative to 1850–1900 (°C)
2 scenarios are based on IPCC and IEA Reference sources

The **GeSI-CDP Scenario Analysis Toolkit** is a set of resources that enables organisations to build the foundations for the development of climate related scenario analysis in alignment with the recommendations of the TCFD.

GeSI is a leading, cross-industry sustainability initiative creating and enabling digital solutions to address society's most pressing challenges (www.gesi.org).

CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts (www.cdp.net).

Time horizons for scenario analysis:

	Short term	Medium term	Long term
Time horizon	1–3 years	5–10 years	>30 years
Year relative to 2023	2025	2030	2050+
Rationale	Aligns with Rakon's 3-year business planning horizon for strategy purposes	Aligns with interim international emissions reduction targets	Aligns with international emissions reduction targets

The **Intergovernmental Panel on Climate Change (IPCC)** is a body of the United Nations. Its job is to advance scientific knowledge about climate change caused by human activities. The IPCC has created reference scenarios that are widely used to understand the potential future impacts of climate change (www.ipcc.ch).

The **International Energy Agency (IEA)** is an autonomous intergovernmental organisation that works with countries around the world to shape energy policies for a secure and sustainable future. The IEA has created reference scenarios that focus on future energy usage (www.iea.org).

Nationally Determined Contributions (NDCs) are where countries set targets for mitigating the greenhouse gas emissions that cause climate change and for adapting to climate impacts. The NDCs are submitted to the United Nations (www.un.org/en/climatechange/all-about-ndcs).

We have completed an initial exercise at a global level to identify climate-related risks and opportunities and assess their potential impact on our business, using the scenario analysis approach outlined above, supported by sector level data sourced from CDP.

As set out in more detail in the Risk Management pillar section below, Rakon classes the risks it faces into two levels:

1. **Key risks** for which risk reduction measures must be in place and escalation can occur as needed; and
2. **Non-key risks** that are managed through normal business processes.

Risks are assessed based on the size of the potential consequence of a risk and the likelihood of the risk occurring. Key risks are generally those with a larger potential consequence and higher likelihood of occurrence.

The tables below set out our initial assessment of climate-related risks by scenario that Rakon faces. Associated opportunities for those risks are also shown.

The general physical risks associated with climate change are expected to increase over the time horizons considered for this scenario, but based on our initial assessment at a global level we have not identified physical risks as key risks for Rakon over the long-term time horizon.

Our initial assessment of associated opportunities:

- Transition: use of lower emissions sources of energy to reduce costs, increasing from the short-term onwards
- Transition: incremental growth in revenue from products, increasing from the short-term onwards, driven by:
  - » access to new markets
  - » development of lower emissions products
  - » shifts in customer preferences.

Having undertaken an initial review our preliminary assessment is that the net impact of climate-related risks and opportunities for the Rapid Transition scenario is not expected to be material to Rakon for the time horizons shown.

Rapid Transition:

TCFD Risk Type	Climate-related risk	Time horizon	Strategies for mitigation
Transition	Increased costs due to enhanced emissions & related reporting obligations	Short-term onwards, building through the medium and long-terms.	Use existing management systems & build out from existing CDP reporting
Transition	Increased costs due to carbon pricing mechanisms	Short-term onwards, building through the medium and long-terms.	Move to renewable energy sources, strengthen carbon emissions monitoring & set reduction targets

Status Quo:

TCFD Risk Type	Climate-related risk	Time horizon	Strategies for mitigation
Transition	Increased costs due to enhanced emissions & related reporting obligations	Building from the short-term onwards, but at a lower impact than the Rapid Transition scenario for all time horizons	Use existing management systems & build out from existing CDP reporting
Transition	Increased costs due to carbon pricing mechanisms	Building from the short-term onwards, but at a lower impact than the Rapid Transition scenario for all time horizons	Move to renewable energy sources, strengthen carbon emissions monitoring & set reduction targets

The general physical risks associated with climate change are expected to increase over the time horizons considered for this scenario and exceed those for the Rapid Transition scenario. However, based on our initial assessment at a global level we have not identified physical risks as key risks for Rakon over the long-term time horizon Our initial assessment of associated opportunities:

- Transition: Use of lower emissions sources of energy to reduce costs (building from the short-term onwards, but at a lower impact than the Rapid Transition scenario for all time horizons)

Having undertaken an initial review our preliminary assessment is that the net impact of climate-related risks and opportunities for the Status Quo scenario is not expected to be material to Rakon for the time horizons shown.

Limited Climate Action:

TCFD Risk Type	Climate-related risk	Time horizon	Strategies for mitigation
Transition	Increased costs due to enhanced emissions & related reporting obligations	Short-term and remains static across all time horizons (no new obligations introduced)	Use existing management systems & build out from existing CDP reporting

The general physical risks associated with climate change are expected to increase over the time horizons considered for this scenario and exceed those for the Status Quo scenario. Over the long-term time horizon, based on our initial assessment at a global level, we expect physical risks for Rakon to remain non-key risks, but moving towards becoming key risks.

Our initial assessment did not note any associated opportunities.

Having undertaken an initial review our preliminary assessment is that the net impact of climate-related risks and opportunities for the Limited Climate Action scenario is not expected to be material to Rakon for the time horizons shown.

We have projects planned to mitigate the identified risks and react to the associated opportunities as follows:

1. Build out of CDP reporting and introduction of other climate reporting to meet incoming CRD regime requirements in a cost effective manner;
2. Purchase of renewable power for our new manufacturing facility at Rakon India;
3. Further reduction of carbon dioxide use in production processes at Rakon New Zealand; and
4. Establishment of initial Scope 1 and 2 greenhouse gas emissions reduction targets in FY24 (as set out in the Metrics & Targets pillar section below).

Our initial review of the impact of climate change on Rakon's strategy has focused on Rakon's four strategic pillars:

1. Technology Innovation,
2. Core Markets,
3. Customer Partnerships,
4. Flexible, Scalable Operations

Having undertaken an initial review, our preliminary assessment did not identify significant potential impacts of climate change on the strategy. There may be some challenges that our initial review did not identify, but at this point in time we consider that Rakon is well-placed to tackle challenges without significant potential impacts. For example, we believe that our continuing focus on building flexibility and resilience into Rakon's manufacturing operations and supply chain provides a good foundation for managing climate change related impacts.

We expect to refine our analysis further in the coming financial year, including additional consideration of local factors that relate to our operational facilities and supply chain and the use of updated climate scenarios, where applicable.

RISK MANAGEMENT

Identification, assessment, and management of climate-related risks

Our current approach to climate change risk management is outlined below.

Operational management of climate-related risks at Rakon is covered by our ISO14001 Environmental Management System processes. We support those 'bottom-up' processes by:

- using TCFD generic risk listings and sector specific listings of risks from CDP to ensure that a wide range of potential climate-related risks are identified for consideration;
- using a scenario analysis toolkit to support our assessment of the potential impacts and time horizons of climate-related risks under possible climate futures; and
- using an adapted risk assessment matrix with specific time horizons and the inclusion of three climate scenarios.

Rakon's risk assessment matrix, currently deployed, splits risks into two levels:

1. **Key risks** for which risk reduction measures must be in place and escalation can occur as needed; and
2. **Non-key risks** that are managed through normal business processes

Risks are assessed based on the size of the potential consequence of a risk and the likelihood of the risk occurring. Key risks are generally those with a larger potential consequence and higher likelihood of occurrence. A simplified version of this is shown in the following diagram:

		LIKELIHOOD				
		1. Very Low	2. Low	3. Medium	4. High	5. Very High
CONSEQUENCE	High	MODERATE	SIGNIFICANT	MAJOR	EXTREME	EXTREME
	Medium high	MODERATE	SIGNIFICANT	MAJOR	MAJOR	EXTREME
	Medium high	INSIGNIFICANT	MODERATE	SIGNIFICANT	MAJOR	MAJOR
	Medium Low	INSIGNIFICANT	MODERATE	MODERATE	SIGNIFICANT	MAJOR
	Low / Unknown	INSIGNIFICANT	INSIGNIFICANT	MODERATE	MODERATE	SIGNIFICANT

KEY RISKS: INCORPORATE RISK REDUCTION MEASURES & ESCALATE AS NEEDED

NON-KEY RISKS: MANAGE THROUGH NORMAL BUSINESS PROCESS

In the previous financial year, we undertook an assessment to better understand which ESG issues are most material to our stakeholders. That assessment identified that the management of carbon emissions, climate adaptation and resilience are amongst the most important topics for Rakon's stakeholders, with decarbonisation a clear priority for that group. Accordingly, Rakon aims to ensure that climate-related risks are given sufficient priority for action within wider risk management activity, despite having a typically longer time horizon than other risks for their potential impacts.

We expect to review our approach in FY24.

METRICS & TARGETS

Metrics and targets used to assess and manage climate related risks and opportunities

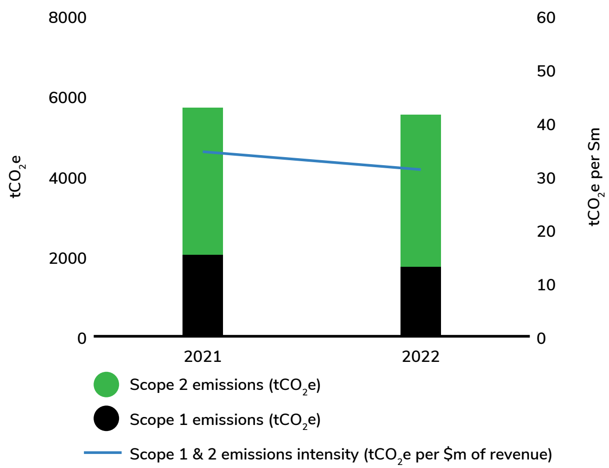
Rakon's most meaningful climate change metrics relate to greenhouse gas (GHG) emissions. We have been reporting to CDP since 2010 and currently measure our Scope 1 (Direct) and Scope 2 (Indirect Energy) GHG emissions. We have now started a project to enable Rakon to disclose Scope 3 (Other Indirect) GHG emissions for FY25 and onwards. Rakon is working towards becoming a Toitū carbonreduce certified organisation and expects to work closely with Toitū Envirocare to audit and measure our greenhouse gas emissions and implement a reduction strategy as we work towards achieving certification.

Our latest GHG emissions by calendar year and recent history are shown in the table below:

Measure	2021	2022
Scope 1 emissions (tCO_2e)	2,030	1,725
Scope 2 emissions (tCO_2e)	3,659	3,803
Scope 1 & 2 emissions (tCO_2e)	**5,688**	**5,528**
Scope 1 & 2 emissions intensity (tCO_2e per $m of revenue)	34.50	31.16
Scope 1 & 2 emissions intensity (tCO_2e per m units produced)	95.59	94.33

The above emissions have not been audited.

We will align GHG emissions reporting to Rakon's financial years for next year's annual report.



The reduction in total Scope 1 & 2 GHG emissions between 2021 and 2022 has been driven mainly by:

- a reduction of carbon dioxide use in production processes at Rakon New Zealand (Scope 1); partially offset by
- increased energy usage in production (Scope 2) (refer also to commentary on emissions intensity below).

Total Scope 1 & 2 GHG emissions intensity (tonnes of CO2e per $m of revenue) has reduced between 2021 and 2022 mainly as a result of the factors noted above, plus on-going continuous improvement activity to find energy efficiencies in production processes and other activities.

Our new manufacturing facility in India will be opened later this calendar year. Sustainability targets will be established for the facility. However, at this time we do not fully understand the potential impact of the facility on Rakon's Scope 1 and 2 GHG emissions. As a result, we will establish our initial Scope 1 and 2 GHG emissions reduction targets in FY24, with the objectives of:

1. Building on GHG emissions reductions achieved since 2021;
2. Setting the targets based on financial years; and
3. Aligning the targets with the goals of the Paris Agreement.

As we undertake the project work to enable Rakon to measure and disclose Scope 3 (Other Indirect) GHG emissions for FY25 and onwards, we will also consider appropriate reduction targets for those emissions.

At COP 21 in **Paris** (2015), it was agreed to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C (www.unfccc.int).

Directory

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Steve Tucker
Lorraine Witten (Chair)
Keith Watson

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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

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Management commentary
(no financial statements)

Management commentary
(no financial statements)

Management commentary
(no financial statements)

www.rakon.com