

CHAIRMAN'S ADDRESS TO SHAREHOLDERS

Sydney – 30 October 2014 – Tag Pacific Limited (ASX: TAG)

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As can be seen from the annual report, the 2014 financial year was a challenging one. We never did expect it to be easy, but a confluence of factors caused more issues than were bargained on. I don't want to dwell on the past today, because I think it is more instructive to talk about how MPower is continuing its drive towards excellence in power convergence and other niche areas of the power sector, but there are some aspects of recent history that I do want to touch on.

Firstly, I just want to reiterate that a large portion of the statutory loss for 2014 was caused by a write down of intangibles and a reassessment of tax assets, neither of which have a cash impact.

One of the more substantive reasons for last year's trading loss was MPower's withdrawal from the installation of residential rooftop solar systems. This had direct and indirect flow-on effects on the size and scale of MPower's more broadly based distribution business. Distribution activities had been scaled up in earlier years to cope with high volumes of low margin solar products, but as these volumes and margins dropped it exposed structural weaknesses and legacy matters that had previously been obscured. These have been and are continuing to be addressed.

Other factors that reduced revenue and hampered what should have been a much better performance by MPower were delays and uncertainty over project variations, combined with longer than anticipated lead times for new projects. It's fair to say that the projects business has experienced its share of development pains as it builds its platform and adjusts to the roll out of more complex solutions over longer time-scales. Its evolution from a small-scale operation to a more dynamically technical business with many moving parts has meant that valuable lessons have been learned.

All in all, it has been a frustrating period and whilst there are still some continuing annoyances, MPower believes it will be rewarded for the significant operational investments that have been made. The management team and operational structure has been reshaped and enhanced – it's not quite there yet, but it's well on the way; supply chain capabilities have been refined; product development initiatives are entering the launch phase; product ranges have been rationalised; and systems have been upgraded to ensure a more robust operating model moving forward.

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ASX ANNOUNCEMENT (continued)

All of MPower's activities have been bound together and streamlined through front-end marketing which now has an entirely new web presence. This has been designed to enable deeper collaboration for those seeking complex technical solutions and provide customers with rich content, product selection and transacting capabilities.

MPower's business is based on the aggregation of strategic assets in the power sector that have been accumulated over time. It is centred on four basic pillars – solar power systems; power systems for the mining, oil and gas sectors; commercial power systems; and distribution/ wholesaling activities – all of which are converging thanks to changes in the industry and the advent of new technologies.

Each division within MPower has its own client base and its own range of products and solutions. But all businesses are bound together at a higher level to ensure a cross-pollination of resources and skills and a unified approach to group direction and strategy. It is this over-arching philosophy that drives the progressive investment in proprietary products and the in-house development of intellectual property.

MPower's aim is to target customers, products and solutions that require specialised skills, services and technical know-how. It has the ability to provide products and power systems in which multiple elements require synchronisation. It is a unique capability. MPower can generate power, convert power and can monitor, control and regulate power. It does this by designing and building bespoke power systems for the oil and gas industry, by building off-grid solar generation facilities in remote locations and by installing and servicing power generation equipment tailored for a variety of uses, including hybrid solutions where more than one type or source of generated power needs to be harmonised with another.

There's quite a skill in this and not too many in this region have mastered it. To add to that, MPower is looking to cement its leadership position in energy storage. Hopefully there will be more to say about energy storage in the not too distant future.

So, as you can see, Tag has been investing in the future. Our major investment, the MPower Group, has succeeded in establishing itself as a reputable provider of major power systems for critical infrastructure. The investment that has been made in building a robust technological platform is now at a point where it ought to start paying its way. It won't happen as quickly as we would like, but we have no doubt that it will happen; and we expect that when it does, it will be quite rewarding.

The challenge ahead is for MPower to improve the consistency of its returns by achieving sufficient volumes of activity, whilst at the same time continuing to develop its capabilities; meanwhile, at Tag, the challenge is to expand our investment horizons.



ASX ANNOUNCEMENT (continued)

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About

Tag Pacific Limited is a Sydney-based investment house listed on the Australian Securities Exchange with a focus on niche areas of the power industry. Tag has invested in a diverse range of companies and activities that have been brought together primarily to operate under the banner of MPower. The company's mission is to invest in the power industry in a manner that creates and enhances value and achieves above average returns.