

TAG PACIFIC FULL YEAR RESULT

Sydney – 28 August 2015 – Tag Pacific Limited (ASX: TAG)

Tag Pacific Limited
ABN 73 009 485 625

Phone +61 2 8275 6000
Fax +61 2 8275 6060

Level 30 Piccadilly Tower
133 Castlereagh Street
GPO Box 4032
Sydney NSW 2001
Australia

The headline result for the 2015 financial year is clearly disappointing. Whilst the largest components of the loss are one-off and non-cash in nature as detailed at half year, the catalyst has been the less than satisfactory performance of the investment in MPower Group. The challenges of the 2014 financial year continued through into 2015, with signs of a recovery in some sectors becoming more evident by year's end.

The group maintained its year-on-year revenue while navigating through a number of activities that are potentially company transforming. These activities have come at some cost to the profit and loss statement and include the following:

- the group's solar and renewables activities are now focussed on large scale solar and energy storage projects in lieu of small scale residential solar; and
- the market-challenged local manufacture and distribution of portable generators has come to an end.

The result for the year has been marred by these and other restructuring costs and has been affected further by significant non-cash, non-recurring write-offs through the profit and loss statement of all intangibles as well as the reduction to zero of all capitalised tax assets (total impact of \$7.1 million). It is expected that the available tax losses will ultimately be used; however accounting standards require a higher level of certainty for the tax assets to be retained on the balance sheet.

The MPower result is best analysed by reviewing the component parts:

\$ million	1st half	2nd half	Full year
Revenue	26.0	28.3	54.3
Tag statutory loss after tax	10.0	2.1	12.1
Add back significant items:			
Restructuring & exit costs	1.7	1.5	3.2
Depreciation, amortisation, interest & head office costs	1.5	1.3	2.8
Non-cash non-recurring accounting charges	7.1	-	7.1
MPower EBITDA before significant items	0.3	0.7	1.0

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ASX ANNOUNCEMENT (continued)

MPower overview

Tag's wholly owned power investments operate through two broad divisions:

- MPower Projects which designs and constructs a wide variety of power system solutions for applications across Australia and more recently offshore.
- MPower Products which distributes a range of specialised power related products in Australia and offshore through MPower Pacific.

Across the MPower Group, strong controls around systems and processes have been implemented which has resulted in a noticeable reduction in inventories. At the same time, overall staff numbers and physical facilities have contracted and going forward this should reflect in lower operating costs.

MPower Projects

Significant progress has been made by MPower Projects as it emerges as a "distributed energy supplier of choice". However the year was slow to start and was hampered with delays and upfront establishment costs arising from the commencement of large scale solar activities.

MPower Projects recorded a small yet positive EBITDA for the period, which was below budgeted expectations but which was nonetheless transformative in its achievements. MPower Projects remains committed to its core markets but recognises that there is a need to use its technical skills and resources to shape its markets, rather than react to them. In addition to existing skills in diesel generation, the growing capabilities in power conversion, energy storage and large scale solar developments are together redefining MPower Projects as an industry specialist in distributed power systems for critical applications.

MPower Projects has now boosted its prospects in energy storage and smart controls through the development of its resources and expertise in large scale solar systems. In this regard, significant direct and indirect costs were incurred during the year (as detailed in the table above), however these were the steps necessary to transition the company and upskill its capabilities.

What is of particular interest is how the composition of work now differs substantially from previous periods. In the last 12 months, more than \$20 million in solar and energy storage projects have been secured. Those projects include:

- a 5.0 megawatt solar power project in Samoa, the largest so far undertaken by the company;
- a 1.7 megawatt off-grid solar development connected to a mine site mini-grid, the largest of its size in Australia; and

ASX ANNOUNCEMENT (continued)

- an 800 kilowatt hour landmark energy storage system with a sophisticated management system.

With the award of the \$14 million Samoa project as the 2016 financial year began, the committed forward order book increased very substantially and was well ahead of the position one year earlier.

The Samoa project marks a significant milestone in the evolution of the MPower Projects business. The expertise and knowledge gained from involvement in projects such as this are invaluable as the business looks to tackle additional projects in identified target segments such as remote and hybrid power systems.

With the advance into new areas, MPower Projects is carrying with it elements of development risk, but there is a general sense of optimism that the company is on the right path. The immediate challenge is to meld the existing core competencies in diesel generation and oil and gas project work with the converging opportunities in distributed power; and to fuse the competencies in sophisticated project engineering with the requirements of a base load of business in smart controls, energy storage and the developing field of renewable energy.

The development of packaged solutions in which solutions are designed once and reused in multiple situations is on the horizon and continues to be core to future scalability.

MPower Products

The distribution activities of MPower Products continued to struggle but ended the year with a thinned down operating structure and with inventories well under control.

At half year, MPower Products reported on the actions it was taking to develop supplier relationships, product management and inventory – and generally reshape the distribution activities to a leaner and meaner operation. The steps taken include the following:

- Streamlining the operating structure.
- Process improvement, with the introduction of new IT and web based systems.
- Inventory rationalisation, with the prioritisation on exclusive offerings.
- Cessation of manufacturing and distribution of portable generators.
- Cessation of distribution of imported third party generators.
- Rationalisation and relocation of branches.

ASX ANNOUNCEMENT (continued)

Core distribution areas such as batteries and solar components continue to hold up relatively well in a competitive environment. Solar componentry, including solar batteries, remains worthwhile due to the specialisation in niche off-grid and fringe areas where technical advice is valued. A more stable policy environment for renewables should assist with industry growth and maturity.

Emergency lighting is well advanced in refining its strategic direction and has suffered continuing delays with new product rollouts and other offshore product and sourcing difficulties. Beyond the current margin constrained distribution model, the design of specialised products suitable for projects and other bespoke requirements has moved forward, as has the capacity to point the division towards a more secure future.

Overall, the MPower Products business has sufficient volumes and levels of activity to indicate a return to profitability can be achieved, provided the business maintains focus on its core activities and ensures its cost base is aligned to the level of sales.

MPower Pacific, which operates in New Zealand and across the Pacific, parallels most of the activities of MPower Products. However, unlike MPower Products the main contributor is batteries and related products. The result for MPower Pacific was below expectation in the first half, but improved in the second half, with expectations of a better year ahead. The company's expertise and product range are ideally suited to further work in the telecommunications space as well as opportunities in the Pacific Islands.

Balance sheet

During this transitional period, balance sheet management has been of paramount importance. The non-cash and non-recurring accounting reversals of \$7.1 million are the most obvious components in the reduced balance sheet. Optimising inventory levels and other working capital items have been a major focus, and the result can be seen in the \$3.1 million reduction in inventory during the year which was achieved at some cost but while maintaining revenue stability.

MPower has no long term bank debt. Borrowings at 30 June 2015 amounted to \$4.0 million. Tag Group cash at that date was \$5.7 million. Cash reduced during the year through the repayment by MPower of all its long term bank debt and the impact of MPower's performance. Working capital is generally being well managed and ratios are satisfactory.

The remaining debt of \$1.1 million on the Tag balance sheet relates to a bank loan against the property held by the Power Property Unit Trust.



ASX ANNOUNCEMENT (continued)

Property

The Tag Group continues to hold a 55% majority interest in the Power Property Unit Trust which owns a commercial property in Melbourne leased to MPower. The property has an unchanged carrying value of \$1.7 million.

Dividends

No dividend has been declared. Franking credits of \$7.4 million are available for use at a later date.

Share buy-back

No shares were purchased during the year under the Company's on market share buy-back facility.

The future

The half year report commented that when viewing the investment in the portfolio of MPower businesses from the Tag parent company level, the expectation was that each business would prove to be lucrative in the fullness of time. The view at year end has not changed and there are many aspects of what is happening within MPower that continue to support an optimistic view. The fundamental change that is occurring within the Australian power sector is driving outcomes that are destined to become more energy efficient – the central themes are decentralised power, energy storage and renewable energy.

MPower has positioned itself at the hub of these changes and it has both the technical expertise and the track record. In parallel, Tag remains on the lookout for investment opportunities to further its investment program.

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For further information please contact:

Peter Wise
Chairman
Tag Pacific Limited
T: +61 2 8275 6000

Nathan Wise
Chief Executive Officer
Tag Pacific Limited
T: +61 2 8275 6000

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.