

TAG PACIFIC POSITIONED FOR GROWTH

- Revenue up 4% to \$56.5 million
- MPower EBITDA of \$0.8 million
- Tag Group improved result of \$1.1 million loss after tax and minorities
- NTA of 9.7cps at 30 June 2016

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Sydney – 30 August 2015 – Tag Pacific Limited (ASX: TAG)

The result for the 2016 financial year showed welcome signs of an overall improvement.

The group increased revenue by 4% to \$56.5 million which was a pleasing outcome – in comparative terms the 2015 revenue of \$54.3 million included revenue from certain MPower activities that have ceased so the improvement is even greater than the headline numbers indicate.

The consolidated result after minorities and tax for the Tag Group for the 2016 financial year was a significantly reduced loss of \$1.1 million. The greatly improved result essentially reflects a breakeven result for the second half of the financial year and a positive trend for the group.

The group's investment in MPower showed discernible progress for the full year with increased gross margins, reduced operating expenses and a positive EBITDA of \$0.8 million.

The Landscape

Broad structural changes in the Australian power sector are continuing apace and reports on the themes and dynamics can be found in the media every day. Much is being written and said about the future of power - how the generation and delivery of power is moving towards a decentralised model where it is generated from renewable sources located near to where it is actually required.

There is strong evidence that the Australian and adjacent regional markets serviced by MPower are entering a phase of unusually strong growth.

Tag, via its wholly owned investment in MPower, is investing in the sector. The primary drivers behind the expected growth include the following:

- The growing market penetration and acceptance of renewables.
- The decentralisation of power generation.
- The growing emergence of viable alternatives for remote communities and locations.
- The development of precinct power and mini-grids featuring on-site generation.
- The emergence of energy storage as a disruptive force.
- The need for smart technology to control and manage all of the above.

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ASX ANNOUNCEMENT (continued)

MPower

MPower is widely recognised for its innovation and technical capabilities. Over recent times, work has been undertaken for major utilities and global leading energy providers, including collaborations with prestigious organisations such as the University of NSW and the University of Queensland. Over the years MPower has been the recipient of awards for engineering, design, business performance and export commitment.

The \$14 million Samoa solar project constructed for First Solar was commenced early in the financial year and was a strong contributor to the year's result. Successful completion of the 5MW project, which is imminent at the time of writing, will be a major milestone for the business and is a credit to management who have worked well in managing the demanding circumstances of a remote location. This project is evolutionary in that the expertise and knowledge being gained is already being factored into new remote and hybrid power systems that are on the horizon. It has been the company's first major offshore solar project; and a successful one at that.

The accelerated uptake of renewable energy, primarily solar PV in residential settings, is a well-accepted and understood phenomenon. However, what is also of particular relevance to MPower is the parallel increase in acceptance of, and demand for, renewable energy in non-residential applications. Examples of this include remote off-grid locations such as mine-sites and other power dependent facilities. At the beginning of the year in review, MPower completed a 1.7MW solar PV farm integrating into a diesel power station at a bauxite mine operated by Rio Tinto in Weipa, Queensland.

One of the major challenges arising from the increasing requirement for solar PV to operate seamlessly alongside diesel power generation is the need to provide a stable power source. In hybrid situations like this, where power stability is critical, MPower's proprietary grid stability system provides a proven technical and competitive advantage over competitors.

Cost reductions and efficiencies in the implementation of solar PV are now tending to make locally generated solar power more cost-effective in comparison to the high transmission costs of centralised network power. This applies not only to remote off-grid communities but also to power users who are at the fringes of the existing grid.

During the year MPower completed a \$1.0 million remote hybrid system comprising solar PV and energy storage integrating into an existing diesel power station. MPower's integration capability has progressed even further since then, with the recent delivery of a \$1.7 million next generation energy storage system with cloud prediction technology at Karratha, Western Australia.

Precinct power and mini-grids incorporating on-site generation and storage are becoming preferred solutions and MPower has the capability and track record to provide for, and meet, the growing need to integrate these technologies. Energy storage is decreasing in cost, whilst at the same time increasing in capacity and availability.

ASX ANNOUNCEMENT (continued)

MPower's project activities are continuing to develop at a rapid rate and MPower is becoming widely recognised as the go-to specialist in distributed power systems, particularly in remote areas and for critical applications. Recognition of the company's world class skills in power conversion, energy storage, smart controls and large scale solar developments are all compounding and building on its historically strong track record in back-up power generation.

MPower's project activities performed well and achieved an above budget EBITDA for the year, which was a very pleasing result. It vindicates the earlier decision to target renewables and energy storage and to build a variable business model that can be appropriately scaled to suit circumstances.

Many of the projects mentioned above have a pioneering element and MPower has successfully stayed at the forefront as technology continues to evolve quickly. The investment in capability is now represented by a huge pipeline of potential opportunities, most significantly in the area of renewables and energy storage.

MPower's distribution activities recorded lower revenue compared to the prior year once discontinued activities are taken into account. Notwithstanding this, the distribution business did manage to improve its position by recording a reduced operating loss. The earlier reduction in fixed staff numbers and the contraction of physical facilities have resulted in the predicted lower operating costs, however lower level operating losses are continuing at the moment and the desired financial result has not yet been achieved.

Batteries and solar componentry with growing specialisation in niche off-grid and fringe areas are the lifeblood of the distribution activities across Australia, New Zealand and the Pacific. The investment in highly experienced change management and the drive towards technical competency is slowly starting to pay off. Increasing volumes and margins continues to be the main aim together with maintaining strong controls around systems and processes.

There are two developments of particular interest. The first is the emergence of the pre-packaged energy storage market (primarily residential), which is still in a fledgling state, but which plays nicely into MPower's core distribution competencies. The second is the Bardic emergency lighting business which has undergone a transformation of late, with the enhancement, validation and testing of its new energy efficient and technologically advanced product range. This has been at the short-term cost of sales and margins but Bardic is now finally on the cusp of expected better days ahead as new overseas production facilities come on stream in the coming months and the pipeline for projects firms up.



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 carrying value of the property was increased to \$1.8 million during the year (2015: \$1.7 million). This revaluation had no impact on the profit or loss account.

Balance sheet

The balance sheet is being well controlled with inventory levels and other working capital items being actively managed.

An 11:20 non-renounceable rights issue was completed by Tag in December 2015 and raised net proceeds of \$1.2 million.

At the consolidated Tag Group level, cash at 30 June 2016 was \$3.8 million. Borrowing levels remained relatively unchanged throughout the year at \$5.1 million, comprised largely of trade and import finance of \$3.5 million and borrowings of \$1.1 million against the Melbourne property.

It is important to note that notwithstanding the considerable intellectual property held within the group and the development work that has been undertaken, there are no intangibles carried on the consolidated balance sheet. Further, future tax benefits are also not capitalised on the balance sheet, although it is expected that the available tax losses will ultimately be used.

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 half year under the Company's on market share buy-back facility which remains in place.

Directors

Richard Peterson resigned as a director in April 2016. He had served as a director with distinction since 1986 and his resignation from the board coincided with his retirement from a long and successful career. The company thanks him sincerely for his valuable contribution and wishes him well for the future.



ASX ANNOUNCEMENT (continued)

Looking ahead

MPower has the technical and operational capability to support a substantial increase in its existing activities, but growth could be accelerated with further strategic collaboration.

There are a number of areas which are under active consideration:

- Pre-packaged solutions, where there are opportunities to offer bespoke solutions in a modularised form.
- Larger scale complex hybrid power systems that would extend the reach into a wider customer base.
- Larger scale grid-connected renewable projects, beyond the current 5MW experience.
- Development and ongoing ownership by extending the business into asset ownership and the sale of power.

MPower is primed for a substantial increase in the scale of its operations. The market for renewables, energy storage and hybrid power solutions in Australia and the Pacific is entering a super-growth phase driven by:

- Reduction in the cost of solar PV.
- Technical improvements in storage technology.
- Changing community and business attitudes on renewables.
- The Australian government RET-mandated growth of renewables.

The long evolution of MPower from a number of diverse businesses into an integrated and multi-faceted group under Tag's ownership has positioned MPower at the very hub of these changes. There are still risks and challenges inherent in what Tag is seeking to achieve, but Tag continues to believe that its investment in MPower is a compelling mid-term investment thesis and a sound platform for growth.

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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.