

TAG PACIFIC PURSUES GROWTH

- **Key milestones and successes achieved during the year**
- **Power sector entering a super-growth phase**
- **Revenue \$40 million**
- **Tag Group consolidated loss of \$3.9 million**

Sydney – 31 August 2017 – Tag Pacific Limited (ASX: TAG)

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Our mission is to invest in niche areas of the power industry to create and enhance value over time. We have invested in a diverse range of companies and activities that operate under the MPower banner, which is now firmly established as a leader in quality integrated power systems and products, with particular expertise in renewable energy, hybrid systems and energy storage.

The revolution occurring within the Australian power sector is the subject of daily media coverage and new trends are constantly emerging. There is community concern about power security and the escalating costs of power and media reports focus on how the future rests with decentralisation - with the generation of power from renewable sources geographically located near to where it is required.

As a small company with a big agenda and impressive competency, MPower is ahead of the curve on these trends and its accomplishments have not yet been recognised by the investment community for what they are.

Revenue for the 2017 financial year was \$40 million (2016: \$56 million). MPower's distribution activities attained higher margins on lower revenues, as part of a planned program to focus on areas of maximum benefit and growth. Revenue from new projects originally planned for the second half of the 2017 financial year has now been contracted in the 2018 financial year. The confirmed project order book at the start of the new financial year is in fact larger and more diversified than at any time in the recent past.

MPower's financial performance was below expectations. Project activities, particularly in the renewable and battery storage sectors, often incorporate an innovation component, and this is a factor contributing to fluctuations in timing of revenue recognition and the firming of new contracts. The Tag Pacific Limited after-tax loss for the year was \$3.9 million after taking head office and listing costs into account.

MPower's cashflow for the year was positive and overall Tag Group cashflow was neutral.

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ASX ANNOUNCEMENT (continued)

MPower has achieved technical excellence and an enviable reputation as an innovator. This is demonstrated by the following successes and milestones achieved during the 2017 financial year:

- MPower completed a ground-breaking battery storage project which sits alongside a 1MW solar PV farm at Karratha Airport in Western Australia. The \$1.7 million project incorporates advanced cloud prediction technology that anticipates cloud cover and enables the level of battery storage to be optimised.
- MPower and Trina BESS formed an alliance for the supply of residential battery storage products across Australia and New Zealand. The range targets residential battery storage, an area that is gradually finding favour with households as the cost of energy from conventional sources increases and households look for ways to time-shift power generated by onsite solar systems.
- MPower achieved two significant milestones in the evolution of its Bardic emergency lighting range. The first milestone was the launch of a revamped range of advanced LED and remotely monitored light products. The launch was quickly followed by securing significant project orders.
- MPower's \$14 million solar farm project in Samoa has been completed. The 5 MW project is the largest solar project undertaken by MPower and represents a substantial proportion of Samoa's generation capacity. The technical and logistics issues that have been overcome in completing this project are a testament to the renewables capability that has been developed within MPower.
- MPower finalised the formation of a new consortium with Broadspectrum (Australia) Pty Ltd (a subsidiary of the global infrastructure company, Ferrovial) to work together to jointly identify, pursue and construct large scale solar projects in Australia. Broadspectrum leads the construction activities and MPower leads the engineering and design activities, reflecting the strength that each party brings to the consortium. Although the lead times are long, the relationship with Broadspectrum unlocks a new scale of opportunity that is expected to reap longer term rewards moving forward.
- MPower is taking its new renewable energy storage solutions to a new level after being successful in its bid to build a large-scale energy storage system in the Cook Islands. At 5.6 MWh it is a landmark project and larger than any grid-connect energy storage system currently operating in Australia. The NZ\$4.3 million project will enable further renewable energy to be connected to the local grid as the Cook Islands moves towards its target of being 100% renewable.

ASX ANNOUNCEMENT (continued)

What these and other successes demonstrate is that MPower's expertise in the new era power sector is strategic and unique in that its solutions are engineered in-house and encompass work for utilities; global leading energy providers; and a raft of blue chip enterprises.

We have in the past commented that the reduction in the cost of both solar PV and battery storage, combined with technical improvements and changing community and business attitudes towards renewables are factors driving our investment focus. The way power is generated, sourced, stored and distributed is changing and whilst MPower has not yet achieved the financial rewards, we are heavily invested in an area which has limitless opportunity.

Management's focus has been on improving MPower's prospects. In addition to an increased order book, the prospective bid pipeline for projects has substantially increased into the hundreds of millions of dollars and is expected to result in a greater order book over time across a range of high specification projects. Beyond the submitted bids, work is continuing on a host of other opportunities, including large scale solar opportunities being pursued by the Broadpectrum MPower Solar Consortium. Business development, design and bid resources have been expanded significantly in anticipation of an increase in proposals in coming months. However the payback for this is likely to be long term.

MPower's distribution activities across both Australia, New Zealand and the Pacific continue to improve as the focus on batteries, solar componentry and the proprietary Bardic emergency lighting range intensifies and as peripheral product lines, activities and geographies assume less relevance. Of particular note at present is the interest being shown by households in adding battery storage to their existing rooftop solar systems. This is still in its very early stage of market acceptance and not yet a major revenue item for MPower, but is expected to be an area of growth in the future.

Good progress was made during the year in containing costs and more savings are expected in the 2018 financial year, as premises, logistics and other efficiencies come on stream. A leaner structure is required to ensure the promise of future rewards is balanced against the reduced balance sheet resources available to the group.

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. There was no material change to the carrying value of the property of \$1.8 million during the year.

Balance sheet

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

At the consolidated Tag Group level, cash at 30 June 2017 was \$3.9 million (2016: \$3.8 million). Borrowing levels remained relatively unchanged throughout the year.



ASX ANNOUNCEMENT (continued)

In common with past years, no intangibles are carried on the consolidated balance sheet, even though significant intellectual property is held within the group, including development work that has been undertaken. Future tax benefits are also not capitalised on the balance sheet.

Dividends

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

Shares and options

No shares were issued during the year; nor were any shares purchased during the half year under the Company's on market share buy-back facility which remains in place. The Company's listed options that trade under the ASX code TAGO expire on 4 October 2017.

Directors and staff

Dr Gary Weiss has resigned as a non-executive director of the company because of numerous other commitments. His resignation takes effect on 31 August 2017 and the board wishes to acknowledge the significant contribution Dr Weiss has made to the company and thanks him sincerely for his many years of valuable service.

On behalf of the board, thanks are also due to management and staff for their loyalty, dedication and eagerness to succeed.

Looking ahead

A satisfactory profit result has been elusive, but MPower has unquestionably succeeded in establishing and positioning itself, in its own unique way, at the hub of the changes in the power sector. This has come at a greater cost than originally envisaged, but it comes at a time when the power sector is undergoing a seismic transformation.

The company is resource constrained in its capacity to fund some of its aspirations moving forward and this may be exacerbated if losses continue for longer than is currently anticipated. In those circumstances, the company would variously seek to raise new capital, partner some of its activities or review its corporate structure.

There is a call for reliable, cheaper and cleaner power, and the sector is reacting by rolling out renewable solutions. These renewable solutions bring with them a transition from centralised power generation facilities to a range of decentralised renewable energy sources. Inherent in this is intermittent power generation; the need to store and regulate power; and the ability to feed power into already established power networks. These are the sweet spots for MPower, both in its project work and also in its supply of products and componentry.

Notwithstanding the financial challenges and those brought about by the dynamic and changing environment of the sector, MPower has improved prospects of taking advantage of its expertise.



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 over time.