

CHAIRMAN'S ADDRESS TO SHAREHOLDERS

Sydney – 28 October 2016 – Tag Pacific Limited (ASX: TAG)

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The result for the 2016 financial year showed signs of an overall improvement for our investment in the MPower Group, with increased gross margins, reduced operating expenses and a positive EBITDA.

In the annual report I commented about how structural changes in the Australian power sector are constantly being referred to in the media. I comment on how the generation and delivery of power is moving towards a decentralised model where it is generated from renewable sources near to where the power is actually required.

Those trends have continued since year end – we believe the Australian market and the markets around this region that are serviced by MPower are entering a strong growth phase.

It is clear that there is a growing market penetration and acceptance of renewables and, in particular, there is a noticeable increase in interest for viable solutions for remote communities and locations. Coupled with the move towards the decentralisation of power generation and the emergence of battery storage, which is decreasing in cost, there is a growing need for smart technology to control and manage installations. For example, seamlessly integrating a solar PV system alongside a diesel mini-grid requires skills and experience for it to be effective.

That's where MPower fits into the equation, because of the work it has already successfully undertaken for major utilities and global leading energy providers, including collaboration with a number of prestigious organisations. MPower's proven solutions for power stability are recognised as having a technical and competitive advantage.

At present MPower is putting the final touches on a \$14 million solar project being constructed for First Solar in Samoa which was commenced early in the 2016 financial year. This has been the company's first major offshore solar project and has been a key milestone for the business. This project has been evolutionary in that the expertise and knowledge gained is being factored into new renewable and hybrid power projects on the horizon.

The use of renewable energy in non-residential applications, in remote off-grid locations such as mine-sites or in mini-grids and other power dependent facilities is starting to gain favour. Generally speaking, cost reductions and efficiencies in the implementation of renewables is now tending to make locally generated solar power more cost-effective in comparison to the high transmission costs of centralised network power.

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ASX ANNOUNCEMENT (continued)

MPower's skills in power conversion, battery storage, smart controls and large-scale solar developments are all converging. Back-up power generation is in the company's DNA and now with the added investment that has been made in capability, MPower is positioning itself for what is being evidenced as a very large pipeline of potential work in the renewable and battery storage arena. Of course, the challenge for MPower is ensuring that it wins its fair share. It will take time and perseverance, but MPower has the capacity to do very well.

MPower's project activities are continuing to perform satisfactorily, and in the first quarter have exceeded budgeted EBITDA. Some of this is attributable to timing benefits so it can't, at this stage, be taken as an indicator of likely performance for the full year. The pattern in past years suggests to us that the second half of the financial year generally outperforms the first half, but bringing specialised projects to book is lumpy and fluctuations in the reportable result are possible. To compensate, it should also be noted that the business model has become more variable, which allows the company to scale operational costs to suit prevailing circumstances.

In relation to MPower's distribution activities across Australia, New Zealand and the Pacific, specialisation in solar power for fringe areas and for off-grid applications is the lifeblood of the battery and solar activities. The emerging growth of the pre-packaged battery storage market plays nicely into MPower's core distribution competencies. This month we announced MPower's strategic alliance with TRINAbest, giving MPower access to a leading range of pre-packaged battery storage products at an opportune time. We expect expansion in this area once product becomes more readily available and the benefits become more understood by households and businesses. The upcoming changes in solar feed-in tariffs are a primary driver.

We also recently announced details of the transformation of the Bardic emergency lighting business, with the enhancement, validation and testing of new energy efficient and technologically advanced products that are being assembled overseas to the company's in-house designs and specifications. Improved performance is expected from the Bardic business as the pipeline for projects gradually begins to build. There are early indications that gross margin improvement can be expected.

Generally speaking, the MPower Group has been targeting higher gross margins across the board, even if that comes at the cost of lower revenue, and in the three months to September, margins are up over the same period last year. At the same time, the unaudited overall EBITDA for the MPower Group is tracking ahead of the comparative period last year. The weighting is still towards projects rather than distribution activities, but month on month advances in the latter are evident as the effect of new management and tight cost controls is being felt. There is still a way to go before distribution activities move into positive territory.



ASX ANNOUNCEMENT (continued)

MPower is primed for a substantial increase in the scale of its operations. The reduction in the cost of solar PV; technical improvements and cost reductions in battery storage; and changing community and business attitudes towards renewables are all important factors. To a certain extent we are in pioneering territory and because there's no past history to go on, we continuously have to alter and fine-tune what we are doing; and that includes the possibility of strategic collaborations with other parties.

This in turn makes it difficult to predict outcomes with any degree of precision, but notwithstanding the short term hurdles and challenges, Tag sees its investment in MPower as taking a strategic position at the hub of evolving changes to the way power is generated, sourced, stored and distributed. We think that's a good place to be.

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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.