RungePincockMinarco

Announcement

Trading update and new Head Office premises lease announcement

30 April 2014

RungePincockMinarco Limited (ASX: RUL) [RPM] has today entered into an agreement to lease new head office premises in Brisbane commencing on 14 June 2015. The financial impacts of entering into the new lease agreement and an update on expected financial results for the 2nd half of the 2014 financial year is provided below.

Net Operating Revenue update

Despite a healthy pipeline of new advisory projects, the consulting and laboratory services of the Group has continued to experience ongoing delays in projects due to a general reduction in exploration activity and increased competition in the Australian and American markets. Project pricing remains extremely competitive due to the recent large scale downsizing across the industry. This has created an abundance of low cost consulting competition which often has previous experience or extensive knowledge of the asset or project.

Revenue from services, including consulting and laboratory activities, is expected to decline in the 2nd half of FY2014. Services revenue in the 2nd half of FY2014 is expected to be within a range of $18.3m to $18.8m, compared to $22.3m in the 1st half FY2014.

In line with the Group's strategic focus, software sales are expected to significantly exceed the FY2013 result. Year to date license sales at the end of March totalled $6.4m compared to $6.8m for the full FY2013 year. A strong and growing pipeline of opportunities, particularly from new products, exists for the 4th quarter of the financial year however as always the timing of these opportunities remains difficult to predict.

The Group is now expecting Net Operating Revenue for the year to be in a range of $60.0m to $63.0m (FY2013; $73.9m) with the key determinant being the timing of software deal conversion.

Operating Expenses update

Due to continued difficult trading conditions the company has undertaken further staff downsizing since the start of the 2nd half of the year particularly in the Advisory business. Group Headcount has now reduced from 309 at 31 December 2013 to 290, with a net annualised reduction in salary and wage costs of $2.0m. This saving is made up of $3.8m in annualised salary costs from roles made redundant or not replaced in the Advisory and support areas and $1.8m in new positions hired into the Development and Enterprise Software teams. The savings from staff restructuring will have some impact on 4th quarter operating expenses but will all flow into the 2015 financial year.

Operating Expenses, excluding restructuring costs, for FY2014 are expected to be approximately $61.0m, down from $72.0m in FY2013.

Staff restructuring costs of $0.5m have been incurred in the 2nd half of the year bringing total restructuring costs for FY2014, including onerous lease provisions, to $1.1m (FY2013; $5.4m).

Operating EBITDA (Earnings before interest, tax, depreciation and amortisation)

Operating EBITDA for FY2014 (including foreign exchange losses), prior to restructuring costs, is forecast to be in a range of $2.0m profit to $(1.0)m loss for the year (FY2013: $1.9m). The final result will be determined primarily by the timing of software sales.

Whilst it is disappointing that the continued difficult trading conditions for both the Advisory and GeoGas exploration have necessitated further staff downsizing in which very capable and experienced consultants have left the business, the Board and Management continue to be pleased with the progress made by the software division and the growing pipeline of software sales for the company's new software products.

Management continues to closely monitor the cost base of the business for further opportunities for saving, including premises costs, as detailed below.

New Head Office Premises Lease

The current head office lease at 333 Ann St, over 4,334 sqm, was entered into on 28 June 2008 for an initial term concluding on 27 June 2015 and an option to extend the term for a further five years to 27 June 2020. The option to extend the lease at 333 Ann St will not be taken.

The new office premises, at 295 Ann Street, comprises 2,422 sqm and is for a term of just over 5 years from 14 June 2015 through to 30 September 2020. The new lease is inclusive of office fitout and no material additional fitout or relocation costs are required for the new premises.

The new lease will result in an annualised reduction in rental and depreciation costs of approximately $1.5 million (net of current sub-tenant recoveries) from the current lease, and removes the financial risks of managing sub-tenancy arrangements. These savings will commence from 1 July 2015.

Due to the previous recognition of onerous lease provisions, in cash terms the annualised net savings will approximate $2.1 million, from 1 July 2015.

The effective life of fitout and fixture assets at 333 Ann St will be brought forward to 30 June 2015 as a result of not taking the option to extend the current lease. This change in effective life will accelerate depreciation on $1.8 million in fixtures and fitting assets that would otherwise have been depreciated over the longer term.

The accelerated depreciation will be booked from 1 May 2014 and will result in increased depreciation costs in the FY2014 year of $0.2 million and in FY2015 of $1.6 million. The accelerated depreciation is a non-cash expense and does not impact the Group's cash flow however cash costs of approximately $1.1 million will be incurred in the 4th quarter of FY2015 to make good and reinstate the current premises to base building.

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About RungePincockMinarco:

RungePincockMinarco Limited (ASX: RUL) is the world's largest publicly traded independent group of mining technical experts, with history stretching back to 1968. We have local expertise in all mining regions and are experienced across all commodities and mining methods.

Listed on the Australian Securities Exchange on 27 May 2008, RungePincockMinarco is a global leader in the provision of advisory consulting, technology and professional development solutions to the mining industry. We have global expertise achieved through our work in over 118 countries and our approach to the business of mining is strongly grounded in economic principles.

We operate offices in 18 locations across 12 countries.