

**RUNGE LIMITED**  
**(RUL)**  
**Annual General Meeting**  
**Chairman and Managing Director's Speeches**

**Time:** 10.00 am (AEST)

**Date:** Wednesday, 30 November 2011

**Venue:** The Christie Conference Centre,  
Kamisama Room, Level 6,  
320 Adelaide Street,  
Brisbane, Queensland

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## ***Chairman's Address***

### **1. Introduction**

I have been a director of Runge Limited for 4.5 years having joined the board in 2007 in anticipation of the company being listed on ASX, which happened in May 2008. In the lead up to the IPO the company made a number of acquisitions including PAH in the US in 2005, MRM in South Africa in 2006, Minarco-MineConsult in May 2007 and GeoGAS in December 2007.

The performance of the company in the period following the IPO was broadly in line with the prospectus guidance until the events of the GFC hit earnings, particularly through the sharp decline in software sales. As the full impact of the GFC was felt in FY10, software sales continued below expectations and services revenue fell below the prior year for only the third time in the company's 34 year history.

### **2. What went wrong?**

In hindsight Runge may have been too slow to react to the uncertain environment, however some valuable lessons have been learnt.

Traditionally the company has performed well during mining booms, as demand for our services is fuelled by new investment. The company has also benefitted during down-turns, with increased demand for our technology to improve efficiencies balancing the decline in new investment.

Over the last 2 years, a large proportion of our revenue has remained linked to new mine development, capital investment, divestment, and mergers and acquisitions. During prolonged

periods of uncertainty, mining companies put such work “on hold,” and commonly cut-back on software and other discretionary purchases.

Throughout the recent downturn, made worse by the Government’s announcement regarding the Mining and Resources tax, Runge made the firm decision to retain our people, rather than issue redundancy notices, in anticipation of an improvement in conditions to come. While short term productivity fell over this period, management invested time into training and development.

*FY11-* The trading environment improved in FY11 which saw our services revenue increase to above pre-GFC levels, driven by strong performances from our offices in Asia and the Americas. Our maintenance revenue continued to grow steadily as the number of software users increased and GeoGAS had another strong year. Again our software sales at \$10 million, while up 15% on FY10, were still much lower than expected. Although our overall revenue improved, our costs also increased as we hired more consultants to meet the demand for services work. In FY11 we achieved an earnings before interest, tax and amortisation (EBITA) of \$9.3 million on net revenue of \$86m, and an after tax profit of \$3.6 million, which is still unsatisfactory.

### **3. Board and Management Changes**

In March 2011 our long term managing director, Tony Kinnane, resigned due to ill health. Tony had been sick for quite some time and the board, the management team and everyone at Runge had hoped he would fully recover. This was not to be and, unfortunately, Tony passed away in July.

Since the end of FY11 there have been a number of changes within the management team and at the board level. Dave Meldrum, who was acting CEO after Tony’s resignation in March, was appointed permanently to the role in July. Dave came into the business with the acquisition of Minarco in 2007. Details of David’s background and experience are set out in Explanatory Memorandum attached to the Notice of the Meeting.

Since his appointment David has focused on setting goals for the management team and defining a clear strategy for the group, including our products and service delivery. There is no doubt that Runge has the right capability set with its people and service lines, however since the IPO, our efforts have been disproportionately focused on shorter-term revenue growth, with our consulting services representing the most effective way to deliver on this. As such, our technology development and focus on IP has taken a back seat over recent years. We are now addressing this imbalance. A certain amount of re-building of this part of the business will be necessary, but we believe this is essential if we are to achieve the margins that we enjoyed prior to the IPO. David Meldrum will expand on our IP strategy and the direction of Runge in the MD’s address after this.

There have also been a number of changes at the board level with Vince Gauci and Neil Hatherly resigning in October. Both Vince and Neil worked very hard while on the board and I for one appreciated their efforts and the contribution they made to the company since its listing in 2008.

We subsequently announced a review of the board structure. Following the AGM we will be announcing the appointment of Allan Brackin as a new director and chairman of the company. Allan's background is heavily weighted towards technology and services, particularly within the IT industry. At the end of the meeting I will ask Allan to give shareholders a brief outline of his experience and achievements. We believe that Allan will be of great assistance to Runge as we refocus on the technology side of the business. The board is still in discussion regarding other possible non-executive directors and the overall board composition.

#### **4. Corporate Governance Clarification**

While on the subject of board structure, I would like to clarify that contrary to the statement in the company's Corporate Governance Statement on page 82 of the Annual report under Principal 2, no performance review of the Board and its Committees was undertaken during FY11. The current circumstances have provided the opportunity for these reviews to now be undertaken.

#### **5. Standard Bank Litigation**

Last month we were notified that the appeal lodged by Standard Bank in the US against Runge's subsidiary, PAH, had been dismissed. PAH, was defending a lawsuit brought by Standard Bank in 2007 involving consulting work performed by PAH. In January last year the Federal Judge in Colorado granted judgement in favour of PAH and dismissed the action. Standard Bank then lodged an appeal. The 10<sup>th</sup> Circuit Court of Appeals heard the matter in November 2010 and made its unanimous decision in favour of PAH in October 2011. The matter is now at an end.

Over the past 4 years Runge Limited has incurred costs of almost \$3 million in defending this action. We are currently assessing possible avenues in an attempt to recover these costs.

#### **6. Options to Executive Directors**

As set out in the Explanatory Memorandum to the Notice of Annual General Meeting the exercise price of the options, the subject of Resolutions 5 and 6, is to be calculated based on the volume weighted average price of shares traded on the ASX in the five trading days ending on 28 November 2011. I inform the meeting that the Exercise Price is \$0.40.

#### **7. The Way Forward**

Our normal earnings for the first half of FY12 are estimated to be similar to the same period last year. This is below our budget and less than our second half performance in FY11. Our services business has continued to perform well although there have been mixed results throughout the regions. While our offices in Asia and the Americas again have performed well, there is still room for improvement in Australia where almost half of our consultants are located. However, our software sales continue to be disappointing and we do not expect to see major improvement in this area until the re-building that I mentioned previously starts to bear fruit. We don't expect to see this until at least the second half of FY12.

The management's team focus for the remainder of FY12 is to improve utilisation and efficiency, grow our consulting capacity, particularly the IP associated with our consulting services and enhance the software offering with a number of new initiatives including the launch of XPAC 7.12. The demand for Runge's services remains as strong as ever while the high quality of our people remains one of our greatest assets. Our global reach and mining knowledge places the company in a strong position to perform at the highest level, where the benefits can be enjoyed by both staff and shareholders.

# RUNGE LIMITED (RUL) Annual General Meeting

## ***Managing Director's Address***

**I will start with a brief overview.**

Last year can be expressed as a year of two distinct periods.

The first half of the year saw Tony Kinnane as Managing Director, initiating changes that better mobilised our workforce and resulted in increased utilisation of our key resources.

With momentum building through the second half of the year, the Executive Team focused on developing a clear strategy for the group while focusing on growing our technology business.

The changes that have been made in this business in the last 12 months have been significant; and whilst we acknowledge that last year's financial results were unsatisfactory, we are confident that the changes made over the last financial year have laid the foundation for sustainable improvement in performance in coming periods.

### **Looking at our Strategic Focus**

Significant effort has been devoted to improving engagement with our most important asset, our people. This renewed focus has been implemented from the senior executive level of our organisation and as a result, we now have a refreshed, coherent and energised leadership team.

The Executive Team worked closely with the Board in redefining our strategy so as to ensure that both the Board and the Executive Team were aligned on a strategy that is in the best interests for our shareholders.

Our unique and key strength is the wealth of knowledge we currently have and continue to amass around the mining domain through our highly skilled consultants and the link they have with our software professionals. At the core of our strategy is a focus on ensuring we continue to identify all available opportunities to utilise our valuable mining domain Intellectual Property to produce sustained and growing return on our core capability of mining domain Intellectual Property.

Our commitment to our shareholders is that we will deliver on our strategy by focusing on our people, customers, innovation and profitable growth.

We have continued to improve the systems and processes that support the operation of this business. We have achieved a level of excellence around our information technology systems and infrastructure that support communications, data management and security.

We now operate in 20 offices across 12 countries which of itself presents a number of challenges to maintaining efficient communication. To address this, we have developed a private network that connects most of our offices, allowing high bandwidth, secure data transfer and video conferencing to ensure Runge operates as a globally integrated business.

Attracting and retaining good people continues to be a challenge faced by all competitors in this industry, particularly in Australia. Right now we are very fortunate to have some of the industry's best intellects working with us. Our goal is to reduce attrition by improving our employee value proposition to ensure we retain our highly valued consulting and technology professionals.

This work is ongoing and we still have big improvements planned for this year.

As with any professional services business we are always looking at ways to expand and improve our client engagement.

In pursuing this objective we have recently restructured our technology business unit with a focus on improving support for our technology products, growing the sales team, establishing an account management structure and employing management with client facing backgrounds. All of these initiatives are geared to supporting the evolution of a client focused culture throughout our business.

Fostering and maintaining the link between our consultants and technology enablers is core to our business. Our consulting team is large with very broad experience throughout our market.

It is our global footprint and the excellent relationships with our clients that gives us a clear understanding of their businesses and allows us to deliver world class consulting services and to innovate industry leading software products and technologies.

The restructure of our technology business unit has helped to facilitate this process and we are already seeing the benefits of the strengthening link with the rest of the business. We are very excited about the new developments within our current product suite which includes the release of the much anticipated XPAC 7.12 in January next year.

Four years following its acquisition, the demand for GeoGAS' services continues to improve with the business now a significant driver of group earnings. To meet this demand, we have already invested in two new laboratories and are pursuing opportunities to take the business offshore to leverage the unique platform that we have built in Australia.

Rising employment costs across the industry continue to put pressure on margins as evidenced in last year's results. Our mandate is now to focus on growing revenues which improve our profit

margins. This mandate is best executed by a continued focus on exploiting our Intellectual Property.

## **Now to our Financial Results**

In the last financial year I am pleased to say that we were able to increase revenue by 19% to \$94.2m on the back of strong demand for Runge's suite of services and products. In meeting this demand the Group was able to increase its operational capacity with staff numbers growing globally by 12% to 416.

Our EBITA, earnings before interest, tax and amortisation, increased by 60% to \$9.3m. Reported NPAT, net profit after tax, also increased by 61% to \$3.6m.

2011 NPAT was affected by the Company's decision to write down its internally developed intangible assets, resulting in a pre-tax non-cash expense of \$1m.

In 2011 operating revenue increased in all regions with most regions achieving double digit revenue growth:

- America's revenue increased by 27% from its low base last year, showing strong recovery in software sales and software consulting;
- Asia continued its progress by growing 29% mostly in advisory consulting; and
- Australian revenue growth of 15% was underpinned by stronger performance of consulting offices and GeoGAS laboratories. Australia remains the source of 55% of gross revenue of the group.

At the end of this financial year Runge established a new office in Toronto, Canada.

## **Looking Forward**

### **And with respect to our people**

One of the factors impacting our performance in the past has been our eagerness to try to achieve too much too soon. We have identified this issue and reassessed our priorities resulting in a renewed focus on core business activities which better engage our people.

The current leadership team is committed to change at a pace that ensures profitable growth and provides a strong legacy.

We are also committed to improving communications and employee engagement so that change can be effected in a timely and effective way.

We have a great pool of talent at Runge. The transition from a largely Brisbane based business to a global business over the last 5 or so years has been challenging for our management and testing on our people. Our employee engagement is now improving through a number of initiatives including:

- Greater transparency and accountability of leadership;
- Improved communications; and
- A performance management system that aligns rewards with our strategic intent.

At the core of our business is Technology and Intellectual Property.

What we have learnt is, that when we apply this capability to our internal and external challenges, we see something quite special. This is evidenced by the development of our *myRunge* portal which is our newly commissioned communications and knowledge management interface. This is a social networking type tool that has been an overnight success within our business.

## **Our Customers**

Throughout our 34 years of mining domain experience and our more than 450 current employees we have been able to and continue to gain great insight into the needs of our customers. We are now taking a much more professional and integrated approach to understanding our clients through global adoption of a CRM and regional client management through dedicated Account Managers. These initiatives are aimed at ensuring our clients' needs are the driving force for the development and evolution of new and existing products.

## **Innovation**

As stated earlier, the focus for our strategy is on the identification, development of and realisation of value from our Intellectual Property. This model has been successful in the Brisbane business but is yet to be fully adopted throughout the group following the integration of newly acquired businesses. Whilst we are seeing improved sales in offshore markets, such as the Americas and Indonesia, we have yet to develop the link between consulting and technology in all regions and this is a challenge we will take on with vigor this year. The possible results are exciting.

There are also a number of exciting technology-focused initiatives that we are pursuing. These include:

- A feature-packed upgrade to XPAC 7.12 which includes new 3D graphics, data analysis tools and a fresh user interface;
- Simplifying our product line in each of our core domains i.e. production scheduling, equipment simulation and financial modeling to better meet our customers' needs; and
- In 2011 we had major success in trialing a new user interface to our planning software that significantly reduced the time a new user takes to become proficient at performing planning tasks. A significant portion of our R&D has been focused on dealing with speed of adoption

so that we could address the mining industry skills shortage and staff turnover issues. In 2012 our focus shifts to commercialisation of this technology within all our product lines.

## **Profitable Growth**

Our extensive and deep consulting base underpins our strategy to deliver profitable growth by expanding the intellectual property and technology parts of our business.

These areas include:

- Professional Development;
- GeoGAS; and
- Technology.

Touching on the first area, we have now employed a full time general manager to oversee the professional development business. Romeo Ayoub has been charged with growing this business and this year will see substantial changes in the way we market and deliver our courses, accompanied by the development of new on-line training products.

Our underground gas testing and consulting business, GeoGAS, continues to pursue options to expand the business in offshore markets while it increases its reach in the rapidly growing coal bed methane sector in Australia.

We are looking at a number of new channels to market our software and we are applying new technology to the evolution of some of our current products that will take us into a new market space.

2012 is a year of repositioning for this business. By the end of this year we will be a more nimble and focused business that will be in a much better position to take advantage of extensive mining domain Intellectual Property in our rapidly changing market.