# ANNUAL REPORT 2012

runge

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# CHAIRMAN'S REPORT

Dear fellow shareholders,

The last year has seen quite a change in our shareholder base, Board composition and business operations.

Since listing, Runge Limited has historically been a low liquidity stock where shareholders have found it difficult to sell larger parcels of shares without a significant corresponding impact on the company's share price. I am pleased to report that over the last 15 months there has been a significant increase in interest in our shares with more than one third of RUL shares changing hands over the period.

The Board continues to believe that the stock is undervalued. This view is supported by the number and capacity of our new shareholders and we welcome them to our register.

As most of you are aware, there has been a recent change in the Managing Director/Chief Executive Officer role with David Meldrum stepping down in August. David did an excellent job and was instrumental in restructuring and rebuilding important parts of the business in Australia as well as addressing significant challenges in our Asian business units. The Board and I would like to thank David for his efforts and are very pleased that he has taken on the role as Regional General Manager - Australia.

We have been very fortunate to be able to appoint Richard Mathews to the role and are very pleased to have an experienced and proven executive as our leader. I think it is worth pointing out that Richard has become a substantial shareholder which I certainly see as a vote of confidence in the business' products, services, clients and business operations. This alignment of shareholder and management interests is always a desirable environment to operate under.

In October 2011, then-Chairman Vince Gauci and Non-Executive Director Neil Hatherly both indicated they would not be standing for re-election at the upcoming AGM and tendered their resignations. Vince and Neil had been members of the Runge Limited Board since the company listed in 2008. Both played a large part in positioning our business for the future and we thank them again for their efforts.

Following last year's Annual General Meeting I was privileged to be appointed to the Runge Board as its Chairman. In February 2012 Richard Mathews was also appointed to the Board. Our fellow directors have been exceptionally supportive and have worked hard to bring us up to speed on both the inner workings of the business and the strategic and competitive landscape in which the business operates.

As the market changes so does our operations. On the expansion front we opened a new office in Toronto to better service our Canadian mining customers. We also established a new GeoGAS laboratory in Brisbane to provide greater capacity and support the continued growth in our GeoGAS business.

The last 12 months have certainly seen change for the company in many areas of the business. We expect given the negative sentiment across the mining sector that more change will be required as we react to both competitive pressures and market dynamics. During the GFC we were criticised for being too slow to react. This is not a perceived error we intend to repeat and as such we will closely monitor the response our customers and other suppliers are making to changes in the mining industry and react accordingly. In light of this we recently made the decision to close down the Corelate Capital business because we could not see it reaching profitability in the foreseeable future.

The Board has declared a 3 cent dividend this year which will be comprised of a 2.5 cent unfranked and 0.5 cent franked payment. This

# CHAIRMAN'S REPORT

is 1 cent higher than the dividend paid last year and includes a special dividend of 1 cent, arising from the proceeds of $2.0 million in Key Man Insurance received during the year in relation to Runge Limited's previous Managing Director, the late Tony Kinnane.

Finally I would like to thank our shareholders for their continued support. I can assure you that we as a Board are doing everything we can to 'do more with less' while looking to expand our service and product offering to our current and prospective clients.

**Allan Brackin**

Chairman

# MANAGING DIRECTOR'S REPORT

## FINANCIAL RESULTS

Despite some individual challenges which confronted some of our regional businesses during the year, FY 2012 was a predominantly successful year for Runge Limited.

Group net revenue increased 16% to a record $99.3 million, with consulting revenue up 12% to $76.7 million, software sales and support increasing 10% to $20.7 million and laboratory services (GeoGAS) revenue was up 53% to $8.9 million.

Although the company experienced some margin pressures in Australia, Africa and Asia during the second half, profit before income tax increased 61% to $8.2 million.

Reported net profit after tax increased 72% to $6.2 million. This result included $2.0 million in Key Man Insurance proceeds received in the first half in relation to Runge Limited's previous Managing Director, the late Tony Kinnane. Basic earnings per share increased from 2.9 cents the prior year to 5.0 cents.
The company's underlying financial strength continued to improve during FY 2012 with the net cash position increasing 87% to $7.1 million by year end.

## STRATEGIC OVERVIEW

### Regional Performance

While the company's operational performance during FY 2012 was buoyed by a relatively robust global resources sector, it was impacted in the second half by specific political factors in some parts of Asia.

Political uncertainty associated with the lead up to Mongolia's national election temporarily eroded investment confidence in that market, with a resulting drop-off in work volumes for our Ulaanbaatar office. This slowdown also impacted on our New South Wales offices during the second half, given that a considerable amount of consulting services for our Mongolian market is performed by personnel in our Sydney office.

Similarly, the level of activity in Indonesia has been impacted by regulatory initiatives of the Indonesian government relating to the increased taxation of mineral exports and limitations on foreign ownership of mining companies. These issues have deflated investment sentiment for planned mine projects and significantly impacted our Indonesian business.

In Australia, our first half performance was solid however our book of work consistency dropped in the second half. Our strengthened team in Western Australia capitalised on that state's robust resources market, achieving some large software sales and sizeable consulting contracts in June.

Our business in the Americas enjoyed another strong, solid performance, increasing revenue by 15% and maintaining targeted margins.

Our business in Africa did not perform to expectations, with some satisfactory software sales offset by an underutilisation of our consulting team. As a result we have significantly strengthened our senior management team to ensure that the opportunities presented in this market can be fully capitalised on.

### Software Evolution

As stated in last year's Annual Report, despite Runge Limited historically being regarded as a flag bearer for mine solutions software, over recent years we had inadvertently lost our focus on this important segment of our business. Over the past year we devoted considerable resources to improving the adaptability, usability and the integration of our software.

As part of our continuing migration to our new generation software packages, during the year under review Runge Limited released two major product updates. In late January

# MANAGING DIRECTOR'S REPORT

2012, the latest update to our flagship mine scheduling software, XPAC 7.12 was launched. This 'life of mine' package now incorporates new 3D graphics, along with significant user interface upgrades. Importantly, the new version of XPAC 7.12 is not only simpler to use, but its individual functions are now more easily customised to meet the needs of different users and differing mine types.

A month after the release of XPAC 7.12, Runge Limited launched a significantly upgraded version of our budgeting and strategic planning solution, XERAS 7.11. Again, enhanced usability and functionality were at the heart of this upgrade, with an entirely new navigation process making it easier for first time users.

Our continued software evolution will see Runge Limited's products progressively transition from purely desktop products to either server-based or cloud-based solutions.

**Group Marketing**

Having an optimum level of products and consulting services on offer obviously remains key to Runge Limited's ongoing success. Just as critical to this success, is an ability to effectively market the calibre of our people and products to our clients and potential clients, world-wide.

Previously, we have not committed sufficient focus and resources on this important facet of our operations. To rectify this we increased our investment in marketing in FY 2012. This included a new and more sophisticated corporate website, a complete refresh of our software marketing collateral, better communication through new generation technology and improving the overall visibility of our business and what we offer.

## IMPROVING EFFICIENCIES

With our staff numbers increasing from 416 to 454 by the close of FY 2012, improving the efficient utilisation of our global consulting staff remains a strategic imperative for Runge Limited. Underutilisation of our consulting staff in some selected markets again constrained our margins to some extent in the year under review.

Over recent years some of the company's various businesses have not consistently been able to achieve our targeted group-wide utilisation rates. In certain instances this has been the result of difficult market conditions and therefore a lack of demand for the volume of consulting services we are equipped to accommodate. While the former, to some extent is outside our control, poor utilisation rates due to inadequate project management processes is definitely an area of the business which we will continue to work on.

Over the past year we have committed a significant amount of time and effort in improving our business systems and processes, and the way in which we manage and direct our people, in order to lift our utilisation rates and margins in the current year.

## INNOVATION AND EVOLVEMENT

Runge Limited has identified three major areas our clients prioritise as they, and their projects, progressively move through the resources cycle:

- Standardisation – clients with multiple different operating sites want standardisation of processes to minimise risk.
- Simplification – easier duplication of tasks by different employees.
- Collaboration – solutions that connect and 'talk' to their other software such as mine design and accounting system solutions.

The continued evolution and direction of our products will increasingly be driven by these client imperatives. At the end of the day, it will see our product focus shifting away from

# MANAGING DIRECTOR'S REPORT

standalone desktop solutions, and their migration towards more sophisticated and compatible solutions that fully integrate with our clients' enterprise solutions.

Runge Limited has developed a roadmap, used internally, and increasingly with great effect externally, which clearly plots the forward direction of our products and the part they and our consultants will play in our clients' whole-of-life mine cycle.

Our product evolvement will see us increasingly collaborate, not only with our clients, but with other software providers to them, to ensure our new generation solutions have a technology code base and interactivity with other third party providers to the mining sector, to ensure we are best placed to service our clients throughout the whole-of-life mine cycle.

## A CHANGING TRADING ENVIRONMENT

Over the past year, and during the start of FY 2013, we have witnessed some fundamental shifts in the wider trading environment in which Runge Limited operates.

The continued volatility and uncertainty of global capital markets in FY 2012 has impacted on our offices which have historically undertaken a high proportion of transactional advisory work – Sydney, Hong Kong and Beijing.

While each of these offices were involved with a number of large transaction assignments, the market volatility experienced over the past year dampened demand for IPO related transaction services, particularly in the latter part of FY 2012.

In mid-August, the Reserve Bank stated that the peak in resources investment in Australia was now expected to occur somewhat earlier than thought in FY 2014, and there have been a number of well publicised major projects deferred or cancelled in the domestic marketplace.
From Runge Limited's perspective, there was a discernable market downturn towards the end of FY 2012 based on our consultant touch points throughout Australia.

If sentiment within this market remains dampened, there are no doubts that it may decrease some areas of our consulting activity. On the 'flipside' we also believe that there are legitimate opportunities for us to capitalise on during any downturn.

Firstly, it will dampen what proved a highly competitive labour market for skilled mining professionals over the past 12 months, and provide some potential upside to our margins.

Secondly, and more importantly, any prolonged shift in the market's dynamics would see our clients strongly focused on cost control, increased risk management and enhancing efficiencies.

In other words clients will look increasingly for assistance in areas that we have a renowned world-wide consulting and software solution proficiency.

## OUTLOOK

We are not budgeting for an increase in either revenue or earnings in the year ahead, Runge Limited's outlook for FY 2013 remains cautionary. Here in Australia, falling commodity prices, a higher dollar and rising capital costs over the past year, have led to a number of high profile planned resource projects being delayed or mothballed.

Over the first three months of the current financial year it has become apparent that less buoyant trading conditions are also emerging in a number of the global markets in which Runge Limited operates.

While current trading conditions continue to deteriorate, it is difficult to accurately predict

# MANAGING DIRECTOR'S REPORT

when the mining industry will start to recover, both here and overseas.
However, what we broadly foresee for the year ahead is a trend away from capital expenditure on exploration and investment in large new projects, towards the optimisation of returns from current operational assets.

In other words, in Australia and other global resource economics, our existing and new clients will be looking increasingly at controlling costs, minimising risk and enhancing efficiencies from their existing projects. Through the entire mine life cycle, the biggest potential areas in which mining companies can lose money are in their strategic planning and operational phases of projects.

These are the very areas in which much of our consulting IP and technology focus sit, and as a company we are strongly positioned throughout the world to add real value to global companies seeking to sustain their margins through optimising the performance of current assets.

We also believe that falling commodity prices and a subsequent repricing of mine assets could possibly trigger a new wave of Chinese investment in global resource projects, as occurred during the GFC. If this occurs our Beijing and Hong Kong businesses could prove important conduits for our global operations to capitalise on.

Notwithstanding the uncertain times ahead, our key corporate goals for FY 2013 are to improve our consulting margins, increase the percentage of revenue derived from software and to reduce our highly skilled employees' attrition rates by providing clearly mapped career development pathways.

I would like to lastly thank our staff for their contributions during the last financial year.

I also look forward to your involvement and understanding as we rapidly adapt to the changes that are currently occurring in our customers operating environments which will almost certainly impact our business in the first half of FY13.

**Richard Mathews**

Managing Director and Chief Executive Officer

# REGIONAL REVIEW

## AFRICA

While revenue from our African operations increased 32% to $4.4 million, its performance for the year did not meet expectations.

Among the key challenges the business faced in FY 2012 were:

- political uncertainty in relation to the nationalisation debate
- the impact of a highly unionised and politicised labour force on investment confidence in the South African mining sector
- a volatile currency.

In May 2012 Mike Evans was appointed as Regional General Manager – Europe, Middle East, Africa and India. In August 2012, we further strengthened our senior management capability for the region, with the reappointment of Ian Parks, the founder of our South African subsidiary, MRM, as General Manager – Africa.

We are confident that these appointments will inject the required vision and drive to underpin a stronger performance in Africa in the current year and beyond.

To help develop our planned growth in the region, during the first half of FY 2012 the company relocated to new office premises in Midrand, halfway between Johannesburg and Pretoria. This represents a long-term investment in unlocking the potential of our markets, not only in Africa, but also emerging markets in India and the Middle East. Growth in the Indian resources market is largely coal-driven, presenting future opportunities for both the consulting and software sides of the business, given our strong global capability in this sector.

## AUSTRALIA

Differing market conditions between the states and lower than budgeted software sales along the Eastern Seaboard, contributed to a mixed performance by our Australian businesses in FY 2012.

High demand for consulting services in Western Australia, particularly in mine planning, and a corresponding strong software performance in that market, reflected the quality of the team we have assembled there over the past year and the state's buoyant iron ore sector.

However, Runge Limited's Sydney and Brisbane offices, which are historically more focussed on the coal sector, were impacted to some extent by the unseasonally wet year along the east coast that constrained operations at some coal mines, and falling coal commodity prices.

Demand for Sydney's consulting services was also affected by a slowdown in transactional advisory work due to the continued uncertainty of global financial markets, and political issues in some of our Asian markets in the second half, which decreased the volume of work Sydney traditionally performs for some of our Asian offices.

Competition for highly skilled mine professionals throughout Australia remained a challenge for Runge Limited during FY 2012, with staff attrition rates impacting on margins. We also expect the overheated mining labour market to loosen over the coming months given the more cautionary resources operating environment now apparent. This is expected to free up the availability of experienced professionals and to cap salary expectations which over the longer term should improve Runge Limited's margins.

## GEOGAS

Despite the wet weather impacts on many east coast coal mines, our specialist laboratory gas testing business GeoGAS,

# REGIONAL REVIEW

enjoyed another year of strong growth, with revenue increasing 52% to $11.1 million.

In FY 2012 we continued our investment in GeoGAS to strengthen its laboratory testing capabilities and efficiencies. Around 34 new staff members including 17 laboratory staff were appointed during the year to meet the increased demand for testing services from new exploration programs and increased underground mining activity throughout Australia.

During the year GeoGAS also commissioned a third laboratory in Brisbane, to complement the laboratory services available in Mackay and Wollongong. To open additional testing opportunities from Australia's mining sector the business also introduced two new services in the form of Green House Gas and Carbon Tax associated consulting and testing, and established its own in-house Petrology Laboratory at Wollongong.

GeoGAS also successfully entered new offshore markets in Indonesia and Mozambique in FY 2012, with testing work from both markets continuing to expand during the year.

## ASIA

Runge Limited's Asian business performed exceptionally strongly during the first half of FY 2012, however this was offset by more difficult trading conditions and a number of challenges which emerged in some of our markets in the second half.

Events which impacted on the region's overall performance in the second half included:

- The departure of our senior Indonesian manager and several key national Indonesian staff to set up a new competing business, which necessitated a virtual rebuild of our business structure in this important market.
- The imposition of new taxes by the Indonesian government on the export of unprocessed products including ores which significantly dampened international investment sentiment and mineral exploration activity.
- The national elections in Mongolia, which again reduced international investment sentiment and stalled exploration focused work.

Despite these setbacks, our various businesses in Asia made some key achievements including:

- Strong revenue growth by the Indonesian and Beijing offices, with continued strong margins.
- The maturation of the Mongolian office, which in only its second full year of operations increased revenue over 60% and returned solid margins.
- Strong software sales in Indonesia, a market in which Runge Limited is the preeminent mining technology vendor.

Encouraged by the strong underlying growth of Asia, in FY 2012 we witnessed increased competition throughout the region for mining consulting services, with a number of new entrants into the Indonesian and Mongolian markets in particular. This led to increased demand for skilled mining personnel and resultant pressure on salary levels, and increased competitive pressures on consulting services prices.

Another challenge faced in Indonesia was a significant drop off in geological activity as a result of falling coal prices through the year.

While the continued uncertainty on global financial markets did not impact significantly on the level of IPO related transaction work performed by our Hong Kong and Beijing offices, towards the close of the year several large listings that Runge Limited's personnel had been involved with for 12 to 18 months, were stalled as a result of dampened investor

# REGIONAL REVIEW

sentiment. We expect the outlook for this category of consulting services will remain subdued for much of FY 2013.

In Mongolia, trading conditions remain clouded by the lead up to local government elections which are scheduled for November. Our focus in this market in the year ahead will be on further strengthening our consulting relationships with local project owners, as these companies' investment plans remain more insulated from reigning political issues than foreign mining groups.

## AMERICAS

A buoyant mining and resources sector coupled with an effective marketing effort, pushed revenue from our American business 15% higher to $17.6 million, with each region achieving year-on-year revenue growth.

Demand for consulting services remained strong throughout the year, with our six American offices all recording increased consulting revenue, resulting in combined services revenue for the region increasing 18% over the prior year.

Our Toronto office completed its first full year of operations and performed ahead of target in terms of staffing, revenue and profit.

In the current financial year a priority for all our American offices will be to maintain the high level of client engagement and proactive marketing efforts to ensure our forward project pipeline remains strong. This will be critical to our continued success in each of the regional markets in FY 2013, given that during the first three months of the current financial year there were some signs emerging of the mining market softening.

# RUNGE LIMITED BOARD OF DIRECTORS

## ALLAN BRACKIN

**Non-Executive Director and Chairman**

Appointed to the Runge Limited Board of Directors in November 2011, Allan is also a Director of ASX listed GBST Holdings Limited, Chairman of Emagine Pty Ltd, and acts in an advisory capacity to several IT companies. Allan has been in the technology industry for more than 25 years.

Allan was formerly Director and Chief Executive Officer of Volante Group Limited, and prior to this, co-founder of Applied Micro Systems (AMS), Netbridge Systems Integration, Prion Technology Distribution, Quadriga Consulting Group and Affinity Recruitment. These businesses were all part of AAG Holdings of which Allan was Managing Director.

Allan holds a Bachelor of Applied Science from the Queensland University of Technology and has completed the OPM (Owner/President Management) Program at Harvard Business School.

## RICHARD MATHEWS

**Managing Director and Chief Executive Officer**

Richard was appointed as Chief Executive Officer in August 2012. Richard was previously a Non-Executive Director on the Runge Limited Board of Directors. Richard is also the Non-Executive Chairman and former Chief Executive Officer of eServGlobal Limited. He has more than 20 years of management experience in telecommunications, software and investment. He is a founding partner of MHB Holdings.

Richard has extensive knowledge of the mining and technology space and proven track record of running global businesses and creating shareholder value.

Richard was formerly CEO of Mincom, Australia's largest enterprise software company. Richard has also held the role of Senior Vice President, International at J D Edwards.

Richard holds a Bachelor of Commerce and a Bachelor of Science from Otago University and is an Associate Chartered Accountant.

## CHRISTIAN LARSEN

**Non-Executive Director**

Christian has been with Runge Limited for more than 20 years and has been a Director since 1996. He has experience in the development of the company's software, business operating procedures and knowledge databases. His previous roles at Runge Limited have included Systems Engineer, Mining Consultant, Business Development Manager, and Head of Mergers and Acquisitions. His most recent role was as Chief Technology Officer.

From 1 October 2012, Christian has become a Non-Executive Director, having ceased to be an executive on 30 September 2012.

Christian holds a Bachelor of Engineering (Hons Mining) and a Master of Business Administration, both obtained from the University of Queensland.

## DR IAN RUNGE

**Non-Executive Director**

Ian Runge founded Runge Limited in 1977 after previously working in the mining industry in central Queensland, Europe and the United States of America. He transitioned from full-time operational involvement in 1992, but has continued to make significant contributions to the company and to the

# RUNGE LIMITED BOARD OF DIRECTORS

industry since that time in the areas of governance processes and business strategy.

He is recognised as a leading expert in the field of mining economics and strategy and is the author of two books in this field, including the textbook “Mining Economics and Strategy”, published by the Society of Mining, Metallurgy and Exploration (Denver).

Ian holds a Master of Engineering (Mining) from the University of Queensland and a Master of Arts and PhD in Economics from George Mason University (Virginia, USA).

Ian is a Fellow of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Company Directors.

## ROSS WALKER
**Non-Executive Director**

Appointed to the Runge Limited Board of Directors in March 2007, Ross is also a partner of Johnston Rorke (Chartered Accountants) having joined them in 1985. Johnston Rorke has more than 120 staff and 14 partners. Ross held previous roles at Arthur Andersen, having worked locally and in various offices throughout the United States of America.

Ross has experience in corporate finance, auditing, valuations and capital raisings.

Ross holds a Bachelor of Commerce from the University of Queensland and is a member of the Institute of Chartered Accountants.

# EXECUTIVE AND REGIONAL GENERAL MANAGERS

## RICHARD MATHEWS

**Managing Director and Chief Executive Officer**

Richard was appointed as Chief Executive Officer in August 2012. Richard was previously a Non-Executive Director on the Runge Limited Board of Directors. Richard is also the Non-Executive Chairman and former Chief Executive Officer of eServGlobal Limited. He has more than 20 years of management experience in telecommunications, software and investment. He is a founding partner of MHB Holdings.

Richard has extensive knowledge of the mining and technology space and proven track record of running global businesses and creating shareholder value.

Richard was formerly CEO of Mincom, Australia's largest enterprise software company. Richard has also held the role of Senior Vice President, International at J D Edwards.

Richard holds a Bachelor of Commerce and a Bachelor of Science from Otago University and is an Associate Chartered Accountant.

## DAVID MELDRUM

**Regional General Manager – Australia**

David has more than 26 years of experience in the resources sector in operations, consulting and investment banking. He was founding partner of Minarco and became General Manager of Minarco-MineConsult upon its acquisition by Runge Limited.

David has extensive experience in mine asset due diligence and valuation and over the last seven years has been part of a team that has developed a high profile and rapidly growing business unit in Asia. In this capacity he has managed the establishment of the corporate group's businesses in China, Hong Kong, Indonesia, Mongolia and Russia.

David holds a Bachelor of Engineering (Hons Mining) from the University of New South Wales and a Graduate Diploma in Applied Finance.

## RAJA UPADHYAY

**Regional General Manager – Americas**

Raja has over 30 years of experience in all phases of mining including consulting, exploration, acquisition, engineering, project management, mine operation, labour relations, and contract administration. Over this period, he has delivered consistently excellent results in bringing coal mining (surface and underground) and related transportation projects from inception to efficient operation.

Raja has managed construction and operations for underground mines, surface mines, and related short-line railroads, and is sought after to bear expert witness. In his extensive experiences, he has even provided consulting services for utilities on matters related to fuel supply alternatives.

Raja holds a Masters of Science (Mining Engineering) from the University of Arizona and a Bachelor of Science (Mining Engineering) from the Indian School of Mines.

## PHILIPPE BAUDRY

**Regional General Manager – Asia**

Philippe, a resource estimation and project evaluation specialist, is a geologist with over 15 years of experience in the mining industry. For eight of those years, he has delivered value and certainty to clients in North Asia and Russia. Focusing on financial market transactions and downstream operational and exploration value creation, he has managed numerous due diligence and independent technical review projects for private acquisitions and listing purposes on the Hong Kong Stock Exchange and other securities exchanges.

Philippe has worked closely with leading Chinese state-owned enterprises and international financial institutions in Hong Kong, Mongolia and China.

# EXECUTIVE AND REGIONAL GENERAL MANAGERS

With his excellent knowledge of the Russian system for resource estimation, and a solid appreciation of the professional and social cultures of Asia and Russia, Philippe has consistently delivered excellent results in close regional partnerships.

Philippe holds a Bachelor of Science Mineral Exploration and Mining Geology, an Associate Diploma of Geo science, a Graduate Certificate of Geostatistics and MAIG. Philippe meets the requirements for Qualified Person for 43-101 reporting, and Competent Person (CP) for JORC and HKEx reporting for most metalliferous Mineral Resources.

## MIKE EVANS

**Regional General Manager – EMIA (Europe, Middle East, India and Africa)**

Mike has over 28 years of experience in hands-on sales and leadership experience in the IT industry. In this time, Mike has held positions of operational responsibility for various global technology companies, from start-ups through to maturity. He has a proven ability to build competent, empowered global sales and delivery teams while ensuring that individual employee growth and development as well as company objectives are met.

Mike's unwavering customer and employee satisfaction focus have earned him an industry-wide reputation for integrity and fairness. Mike relates well to both technical and functional aspects of the software and services industry having worked across many industry sectors including Finance, Retail, Telecoms, Manufacturing, Mining and Natural Resources, Utilities, Supply Chain, Defence, Transportation, Local and Central Government.

## KIERAN WALLIS

**Executive General Manager – Corporate Services and Company Secretary**

Kieran was appointed as Executive General Manager – Corporate Services in September 2012, having previously held the roles of Chief Operating Officer (COO) and Chief Financial Officer (CFO) since he joined Runge Limited in October 2010. Kieran is a Chartered Accountant with more than 20 years' experience in professional services and technology industries.

Kieran has previously held CFO roles in the ASX-listed technology company GBST Holdings and prior to joining Runge Limited was CFO of the mining services company Industrea Limited. Kieran's background includes substantial international management and operational experience including the negotiation and execution of major corporate finance transactions.

Kieran holds a Bachelor of Business (Accountancy) from the Queensland University of Technology and is a member of the Institute of Chartered Accountants in Australia.

## MICHAEL KOCHANOWSKI

**Chief Financial Officer**

Appointed Chief Financial Officer in February 2012, Michael's prior role with Runge Limited included four years as Group Financial Controller.

Michael is a Certified Public Accountant and Fellow of the Tax Institute of Australia. Prior to joining Runge Limited Michael held a senior management position in the business advisory division of chartered accounting firm Moore Stephens.

Michael holds a Bachelor of Commerce from the University of Queensland.

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# CORPORATE DIRECTORY

**Directors**

**Allan Brackin**
*Chairman (appointed 30 November 2011)*

**David Meldrum**
*Managing Director (appointed 7 July 2011, resigned as Managing Director 28 August 2012)*

**Christian Larsen**
*Executive Director*

**Richard Mathews**
*Non-executive Director (appointed 8 February 2012, appointed Managing Director 28 August 2012)*

**Dr Ian Runge**
*Non-executive Director*

**Ross Walker**
*Non-executive Director*

**Vince Gauci**
*Chairman (resigned 20 October 2011)*

**Neil Hatherly**
*Non-executive Director (resigned 20 October 2011)*

**Company Secretary**

**Kieran Wallis** (*appointed 10 October 2012)*

**Ken Lewis** *(resigned 10 October 2012)*

**Registered Office**

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Brisbane QLD 4000
Ph: +61 7 3100 7200
Fax: +61 7 3100 7297
Web: www.runge.com

**Auditor**

BDO East Coast Partnership (formerly PKF East Coast Practice)
Level 18, 300 Queen Street
Brisbane QLD 4000

**Share Registry**

Computershare Investor Services Pty Limited
117 Victoria Street
West End QLD 4101

**Stock Exchange Listing**

The company is listed on the Australian Securities Exchange Limited (ASX: RUL)

# DIRECTORS' REPORT

Your Directors present their report on Runge Limited and its subsidiaries for the year ended 30 June 2012 (referred to hereafter as the "Group").

**1. Directors**

The Directors of Runge Limited at any time during or since the end of the period were:

**Non-executive**

Allan Brackin – *Chairman* – appointed 30 November 2011

Dr Ian Runge

Ross Walker

Richard Mathews – appointed 8 February 2012, appointed Managing Director 28 August 2012

Vince Gauci – *Chairman* – resigned 20 October 2011

Neil Hatherly – resigned 20 October 2011

**Executive**

David Meldrum – appointed 7 July 2011, resigned as Managing Director 28 August 2012

Christian Larsen

**2. Principal Activities**

The Group's principal activities during the financial year consisted of:

a) Technical, advisory and training services to the resources industry;

b) Software licensing, consulting, implementation and maintenance; and

c) Laboratory gas testing.

There were no significant changes in the nature of the Group's principal activities during the financial year.

**3. Dividends**

Dividends paid during the financial year were as follows:

| | Date of payment | Cents per share | Total amount $ '000 |
|---|---|---|---|
| 2011 Full year dividend ordinary share unfranked | 6 October 2011 | 1.0 | 1,241 |
| 2012 Interim dividend ordinary share unfranked | 5 April 2012 | 1.0 | 1,241 |
| **Total** | | | **2,482** |

In addition to the above dividends, since the end of financial year the directors have declared the payment of a final ordinary dividend of $1,240,800, 50% franked (1.0 cent per share) and payment of a special unfranked dividend of $1,240,800 (1.0 cent per share) both with a record date of 15 September 2012 to be paid on 5 October 2012.

## 4. Review and Results of Operations

In the year ended 30 June 2012 net revenue increased by 16% to $99.3 million (2011: $86.0 million). The growth in operating revenue was underpinned by strong demand for the company's consulting services and software products.

Profit after income tax increased by 72% to $6.2 million (2011: $3.6 million) resulting in basic earnings per share of 5.0 cents per share (2011: 2.9 cents per share).

*Consulting*

Runge Limited provides consulting services in the form of mining advisory, software implementations and training courses.

Revenue from consulting services grew by 12% to $76.7 million in the year (2011: $68.7 million), with all operating regions reporting increased levels of activity and demand.

*Technology*

Revenue from the licensing and maintenance of technology products increased by 10% to $20.7 million (2011 $18.8 million). Licence sales totaled $10.9 million (2011: $9.9 million).

*Other*

Laboratory gas testing services undertaken by GeoGAS continued to expand throughout the year with revenue increasing 53% to $8.9 million (2011: $5.8 million). The growth was facilitated by the refit of testing facilities in the Mackay laboratory in the beginning of the year. A new laboratory was opened in Brisbane in March 2012.

*Operating Expenses*

Operating expenses increased by 15% during the year to $92.6 million (2011: $80.4 million).

Employee benefits expense totaled $62.7 million (2011: $53.2 million) due to an increase in full time equivalent staff to 454 at 30 June 2012 (2011: 416) and continuous competition for mining professionals in Australia.

*Financial Position*

The net cash position of the Group increased by 87% to $7.1 million (2011: $3.8 million). The debt facilities were renewed in September 2011 for three years and are now shown as non-current liabilities.

Net assets of the group increased by 8% to $48.3 million (2011: $44.7 million).

## 5. Significant Changes in the State of Affairs

There was no matter or circumstance during the financial year that has significantly affected the state of affairs of the Group.

## 6. Litigation

The Group has successfully defended the litigation against a controlled entity, Runge, Inc doing business as Pincock Allen and Holt (PAH) in the United States.

# DIRECTORS' REPORT

### 7. Matters Subsequent to the End of the Financial Year

No matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

a) The Group's operations in future financial years; or

b) The results of those operations in future financial years; or

c) The Group's state of affairs in future financial years.

### 8. Likely Developments and Expected Results of Operations

This financial report does not include information on all developments in the Group or on the expected results of operations for the forthcoming year because the Directors believe that such disclosure would result in unreasonable prejudice to the Group.

### 9. Information on Current Directors and Company Secretary

| Directors | Experience | Special responsibilities |
|---|---|---|
| Allan Brackin | Chairman, Non-executive Director. Joined the Board in November 2011. Allan was formerly Director and Chief Executive Officer of Volante Group Limited, and prior to this, co-founder of Applied Micro Systems (AMS), Netbridge Systems Integration, Prion Technology Distribution, Quadriga Consulting Group and Affinity Recruitment.<br>Qualifications: Bachelor of Applied Science<br>Other listed company directorships in last three years: Director of GBST Holdings Limited since 2005. | *Chairman*<br>*Member – HR and Remuneration Committee* |
| David Meldrum | Joined the Board in July 2011 as Managing Director, employed by Runge Limited for 5 years. Resigned as Managing Director 28 August 2012.<br>Qualifications: Bachelor of Mining Engineering (Hons), Fellow FINSIA, Member of AusIMM and AICD.<br>Other listed company directorships in last three years: None. | *Managing Director*<br>*Member – HR and Remuneration Committee* |
| Christian Larsen | Executive Director. Joined the Board in January 1996, employed by Runge Limited for 24 years.<br>Qualifications: B.E. (Mining Engineering), MBA, FAICD, PE.<br>Other listed company directorships in last three years: None. | *Executive Director*<br>*Member – IP and Technology Committee* |
| Dr Ian Runge | Non-executive Director, company founder. Director since December 1986.<br>Qualifications: M.E.(Mining Engineering), Ph D. (Economics), FAusIMM, FAICD.<br>Other listed company directorships in last three years: None. | *Non-executive Director*<br>*Member and Chairman of IP and Technology Committee and Member – Audit and Risk Committee* |

# DIRECTORS' REPORT

| Directors | Experience | Special responsibilities |
|---|---|---|
| Ross Walker | Non–executive Director. Joined the Board in March 2007.<br>Joined Johnston Rorke in 1985, Managing Partner in 1995 - 2008. Predominantly involved in corporate finance, auditing, valuations, capital raisings and mergers and acquisitions for the past 20 years.<br>Qualifications: Bachelor of Commerce, FCA<br>Other listed company directorships in last three years: None. | *Non – executive Director*<br>*Member and Chairman – Audit and Risk Committee*<br>*Member – HR and Remuneration Committee* |
| Richard Mathews | Non-executive Director. Joined the Board in February 2012. Appointed Managing Director 28 August 2012.<br>Richard is also the Non-Executive Chairman and former Chief Executive Officer of eServGlobal Limited. He has more than 20 years' of management experience in telecommunications, software and investment. He is a founding partner of MHB Holdings Pty Ltd.<br>Richard was formerly CEO of Mincom, Australia's largest enterprise software company. Richard has also held the role of Senior Vice President, International at J D Edwards and Director of TransLink Transport Authority.<br>Qualifications: Bachelor of Commerce, Bachelor of Science, ACA<br>Other listed company directorships in last three years: None. | *Non-executive Director*<br>*Member and Chairman – HR and Remuneration Committee and Member – IP and Technology Committee* |

### 9. Information on Current Directors and Company Secretary (Continued)

All Directors are members of the Nominations Committee.

Ken Lewis, LLB (Group General Counsel) is Company Secretary. Commercial Lawyer with private practice and corporate experience. Joined Runge Limited in 2008. Qualifications: LLB, Solicitor of the Supreme Court of Queensland and the High Court of Australia.

### 10. Meetings of Directors

The number of meetings of the company's Board of Directors and of each Board committee held during the year ended 30 June 2012 and the number of meetings attended by each Director were:

| | Full meetings of Directors | | Audit & Risk Committee | | HR & Remuneration Committee | | IP & Technology Committee | |
|---|---|---|---|---|---|---|---|---|
| | Attended | Held | Attended | Held | Attended | Held | Attended | Held |
| Vince Gauci | 10 | 10 | 1 | 1 | 5 | 5 | - | - |
| Dr Ian Runge | 15 | 18 | 4 | 4 | - | - | 1 | 1 |
| Allan Brackin | 6 | 6 | - | - | 3 | 3 | - | - |
| Richard Mathews | 5 | 5 | - | - | 2 | 2 | 1 | 1 |
| Christian Larsen | 15 | 18 | - | - | - | - | 1 | 1 |
| Ross Walker | 16 | 18 | 4 | 4 | - | - | - | - |
| Neil Hatherly | 10 | 10 | - | - | 4 | 5 | - | - |
| David Meldrum | 16 | 18 | - | - | 8 | 8 | - | - |

### 11. Insurance of Officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be personally liable, except where there is a lack of good faith.

During the financial year, the company paid insurance premiums to insure the Directors and Officers of the company against certain risks associated with their activities as officers of the company. The terms of that policy prohibit disclosure of the nature of liability covered, the limit of such liability and the premium paid.

### 12. Remuneration Report - Audited

The remuneration report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration;

B. Details of remuneration;

C. Share-based compensation; and

D. Service agreements.

Remuneration and compensation have the same meaning in this report.

## 12. Remuneration Report - Audited (Continued)

### 12A. Principles Used to Determine the Nature and Amount of Remuneration

This report discusses the Group's policies in regard to compensation of key management personnel. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the Directors of the Company and executives.

The Board has established an HR and Remuneration Committee to assist with remuneration and incentive policies enabling the Group to attract and retain executives and Directors who will create value for shareholders and support the Group's mission. The HR and Remuneration Committee obtains independent advice on the appropriateness of compensation packages given trends in comparative companies. In the 2012 financial year the Committee has not used a remuneration consultant. The Corporate Governance Statement provides further information on the role of this Committee.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic, operational objectives and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- The capability and experience of the key management personnel;
- Their ability to control the relevant segment's performance; and
- The segment or Group performance, including:
  - the segment or Group earnings and quality of delivery to customers; and
  - the growth in share price and achievement of consistent returns to shareholders.

Compensation packages include a mix of fixed and short-term and long-term performance-based incentives.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel and contributes to a defined contribution superannuation plan on their behalf.

**Fixed Compensation**

Fixed compensation is calculated on a total cost basis and includes salary, allowances, non-cash benefits, employer contributions to superannuation funds and any fringe benefits tax charges related to employee benefits, including motor vehicles.

Compensation levels are reviewed annually based on evaluation of the individual, segment and overall Group's performance. A senior executive's compensation is also reviewed on promotion.

**Performance Linked Compensation**

Performance linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting and exceeding their key performance indicators (KPIs). The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Employee Share Option Plan (ESOP) (see note 26 to the financial statements). The current long-term performance incentive structure was implemented in the 2008 year and amended in 2010 and 2012 years.

## 12. Remuneration Report - Audited (Continued)

### 12A. Principles Used to Determine the Nature and Amount of Remuneration (Continued)

The table below sets out the performance based compensation paid to key management personnel together with earnings for the same period. Performance based compensation consists of STI cash bonus and LTI share-based payments.

| | Performance based compensation | | | | | |
|---|---|---|---|---|---|---|
| Year ended 30 June | STI $'000 | LTI $'000 | Total $'000 | Net profit $'000 | Dividends $'000 | Share price $ |
| 2008 | 330 | 8 | 338 | 5,943 | 7,447 | 1.13 |
| 2009 | - | 91 | 91 | 7,918 | 4,343 | 0.52 |
| 2010 | 55 | 115 | 170 | 2,288 | 4,343 | 0.40 |
| 2011 | 75 | - | 75 | 3,590 | 1,241 | 0.37 |
| **2012** | **56** | **68** | **124** | **6,237** | **2,482** | **0.35** |

***Short-term Incentive Bonus***

The Board sets KPIs for the Managing Director and then delegates to the Managing Director to set the remaining KPIs for senior executives. The KPIs generally include measures relating to the Group, relevant segment and the individual. These measures are chosen to directly align the individual's reward to the performance and strategy of the Group and include financial, people, customer, strategy and risk objectives.

The financial performance objectives include 'earnings before interest, tax and amortisation' (EBITA) compared to budgeted amounts. The non-financial measures vary with the position and responsibility and include, but are not limited to, measures such as achieving strategic outcomes, staff development and customer satisfaction.

At the end of the financial year the Managing Director assesses the actual performance of the Group, the segment and individuals against their KPIs. A percentage of the pre-determined amount is awarded to key management personnel based on the results of such assessments.

Cash bonuses are paid, provided for or forfeited in the year to which they relate.

***Long-term Incentive***

Options were issued in 2008, 2010, 2011 and 2012 under the Employee Share Option Plan (ESOP) to key management personnel at the discretion of the Board.

The rules allow the Board to set a timetable for vesting of options in order to reward the longer term performance by setting performance hurdles which must be met for the option holder to be entitled to exercise the options.

The vesting of options issued in 2008 is subject to the following performance hurdles:

a) The key management personnel continuing to be employed by the Group.

b) Absolute – Total Shareholder Return (TSR) increase as follows:

   i) Options vesting on 30 August 2009 – 20% TSR from the Grant Date;

   ii) Options vesting on 30 August 2010 – 44% TSR from the Grant Date; and

   iii) Options vesting on 30 August 2011 – 72% TSR from the Grant Date.

c) Relative – better performance, (TSR), than half of twenty of Group's industry peers set by the Board.

## 12. Remuneration Report - Audited (Continued)

## 12A. Principles Used to Determine the Nature and Amount of Remuneration (Continued)

The measures above were chosen as they provide the Board with an objective means of measuring the Group's performance against its peer group.

Key management personnel also received options issued to all employees vesting in set dates subject to continuing employment condition.

The options issued in 2010 and 2011 include vesting conditions related to Earnings per Share growth, EBITA margin and TSR peer comparison. The performance hurdles for each condition are as follows:

| Vesting Condition | Hurdle | % of Options which vest if vesting condition satisfied |
|---|---|---|
| EPS average annual growth from the year preceding grant to the year following grant above average annual Australian CPI increase in the corresponding period. | Less than 4% | 0% |
| | 4% or more, but less than 8% | 20% plus an additional 5% for each 1% increment |
| | 8% or more | 40% |
| EBITA margin in the year following grant | Less than 15% | 0% |
| | 15% or more but less than 20% | 20% plus an additional 4% for each 1% increment |
| | 20% or more | 40% |
| TSR growth above peer comparison group | Less than 50th percentile | 0% |
| | 50th percentile or higher but lower than 75th percentile | 10% plus, from 51st to 75th percentile, 0.4% for every 1 percentile |
| | 75th percentile or higher | 20% |

The options issued in 2012 vest in accordance with the following table if the Company's average annual earnings per share (EPS) growth (**Average EPS Growth**) over the performance period comprising the 2012, 2013 and 2014 financial years (**Performance Period**), is at least 10 percentage points above the Average Australian Consumer Price Index (CPI) Increase for the corresponding period.

**EPS Vesting Condition**

| Average EPS Growth over the Performance Period above Average Australian CPI Increase in the corresponding period | % of Options which vest |
|---|---|
| Less than 10 percentage points | 0% |
| 10 percentage points or more, but less than 20 percentage points | 50% plus an additional 5% for each 1% increment |
| 20 percentage points or more | 100% |

The Board has a policy that restricts Directors and executives of the Group from entering into financial contracts secured by shares and other securities of the Company. This policy requires the approval of the Chairman of the Board for any financial arrangements or facilities related to company shares held by the Directors and executives.

# DIRECTORS' REPORT

## 12. Remuneration Report - Audited (Continued)

## 12A. Principles Used to Determine the Nature and Amount of Remuneration (Continued)

***Non-executive Directors***

Fees and payments to Non-executive Directors reflect the demands which are made on, and the responsibilities of the Directors. Non-executive Directors' fees and payments are reviewed periodically by the Board and are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The pool currently stands at $500,000 (2011: $500,000).

Non-executive Directors' base remuneration was last reviewed with effect from 1 March 2008. Both the Chairman's and Non-executive Directors' remuneration is inclusive of committee fees. An allowance was paid to the Chairman of the Audit and Risk Committee and to the Chairman of the HR and Remuneration Committee from 1 January 2010 to 30 September 2011. From 1 October 2011 no allowances have been paid for Chairmanship of committees in excess of payments to Directors as Directors.

## 12B. Details of Remuneration

***Directors***

*Chairman (Non-executive)*

Allan Brackin (appointed 30 November 2011)
Vince Gauci (resigned 20 October 2011)

*Executive Directors*

David Meldrum, Managing Director (appointed 7 July 2011, previously Acting Chief Executive Officer, resigned as Managing Director on 28 August 2012)
Christian Larsen, Executive Director

*Non-executive Directors*

Dr Ian Runge
Ross Walker
Richard Mathews (appointed 8 February 2012, appointed as Managing Director on 28 August 2012)
Neil Hatherly (resigned 20 October 2011)

***Other Key Management Personnel***

In addition to executive Directors mentioned above, the following persons were the executives who had the greatest authority and responsibility for planning, directing and controlling all activities of the Group, directly or indirectly, during the financial year:

| Name | Position |
|---|---|
| Michael Kochanowski | Chief Financial Officer (commenced in this role 23 February 2012, previously Group Financial Controller) |
| Ken Lewis | Group General Counsel and Company Secretary |
| Kieran Wallis | Chief Operating Officer (commenced in this role 31 October 2011, previously Chief Financial Officer) |
| Scott Henderson | Chief Technology Officer (resigned 5 August 2011) |
| Peter Olsen | Executive General Manager – Global Development (resigned 31 October 2011) |

Details of remuneration of each Director of Runge Limited and each of the other key management personnel of the Group are set out in the following tables.

# DIRECTORS' REPORT

## 12. Remuneration Report - Audited (Continued)

### 12B. Details of Remuneration (Continued)

| | Short-term benefits | | | Post - employment benefits | | Share-based payment | Total | Proportion of remuneration performance related | Value of options as proportion of remuneration |
|---|---|---|---|---|---|---|---|---|---|
| | Cash salary and fees | STI cash bonus | Non – monetary benefits | Super-annuat ion | Termination benefits | Options | | | |
| **2012** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **%** | **%** |
| **Directors** | | | | | | | | | |
| A Brackin | 64,218 | - | - | 5,782 | - | - | 70,000 | - | - |
| D Meldrum | 361,661 | - | 84,900 | 38,836 | | 37,671 | 523,068 | 7.2 | 7.2 |
| C Larsen | 388,499 | - | - | 15,199 | - | 19,318 | 423,016 | 4.6 | 4.6 |
| V Gauci | 36,229 | - | 3,191 | 3,261 | - | 1,759 | 44,440 | 4.0 | 4.0 |
| Dr I Runge | 80,000 | - | - | - | - | - | 80,000 | - | - |
| R Walker | 83,750 | - | - | - | - | - | 83,750 | - | - |
| R Mathews | 30,580 | - | - | 2,752 | - | - | 33,332 | - | - |
| N Hatherly | 47,500 | - | - | - | - | - | 47,500 | - | - |
| | 1,092,437 | - | 88,091 | 65,830 | - | 58,748 | 1,305,106 | 4.5 | 4.5 |
| **Other Key Management Personnel** | | | | | | | | | |
| K Wallis | 311,667 | - | 8,876 | 27,885 | - | 10,985 | 359,412 | 3.1 | 3.1 |
| K Lewis | 317,481 | 55,872 | 8,876 | 23,353 | - | 14,257 | 419,839 | 16.7 | 3.4 |
| M Kochanowski* | 168,519 | - | 33,472 | 18,055 | - | 6,467 | 226,513 | 2.85 | 2.85 |
| S Henderson | 31,423 | - | (2,843) | 3,848 | 76,667 | (12,118) | 96,977 | (12.5) | (12.5) |
| P Olsen | 162,929 | - | 10,962 | 12,534 | - | (10,582) | 175,843 | (6.0) | (12.5) |
| | 992,019 | 55,872 | 59,343 | 85,675 | 76,667 | 9,009 | 1,278,585 | 5.0 | 0.6 |
| Total | **2,084,456** | **55,872** | **147,434** | **151,505** | **76,667** | **67,757** | **2,583,691** | **4.4** | **2.3** |

*Represents payments for full year

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | | | |
| **Directors** | | | | | | | | | |
| A Kinnane** | 290,737 | - | 8,459 | 50,000 | 469,630 | (19,493) | 799,333 | (2.4) | (2.4) |
| C Larsen | 355,168 | - | - | 15,199 | - | 5,044 | 375,411 | 1.3 | 1.3 |
| V Gauci | 119,266 | - | 8,459 | 10,734 | - | - | 138,459 | - | - |
| Dr I Runge | 80,000 | - | - | - | - | - | 80,000 | - | - |
| R Walker | 95,000 | - | - | - | - | - | 95,000 | - | - |
| N Hatherly | 95,000 | - | - | - | - | - | 95,000 | - | - |
| | 1,035,171 | - | 16,918 | 75,933 | 469,630 | (14,449) | 1,583,203 | (1.0) | (1.0) |
| **Other Key Management Personnel** | | | | | | | | | |
| D Meldrum | 288,061 | - | 32,489 | 63,638 | - | 5,038 | 389,226 | 1.3 | 1.3 |
| K Wallis | 180,664 | - | 5,614 | 16,260 | - | 4,514 | 207,052 | 2.2 | 2.2 |
| J Sloman*** | 13,246 | - | - | 3,800 | 85,297 | (11,986) | 90,357 | (13.3) | (13.3) |
| K Lewis | 275,229 | 75,000 | 8,459 | 31,197 | - | 3,035 | 392,920 | 19.9 | 0.8 |
| P Olsen | 317,872 | - | 25,724 | 30,275 | - | 10,582 | 384,453 | 2.8 | 2.8 |
| S Henderson | 207,232 | - | 31,227 | 20,351 | - | 3,122 | 261,932 | 1.2 | 1.2 |
| | 1,282,304 | 75,000 | 103,513 | 165,521 | 85,297 | 14,305 | 1,725,940 | 5.2 | 0.8 |
| Total | **2,317,475** | **75,000** | **120,431** | **241,454** | **554,927** | **(144)** | **3,309,143** | **2.3** | **0.0** |

** Resigned 31 March 2011
*** Resigned 7 July 2010

# DIRECTORS' REPORT

**12. Remuneration Report - Audited (Continued)**

**12C. Bonuses and share-based compensation benefits**

All options refer to options over ordinary shares of Runge Limited, which are exercised on a one-for-one basis under the ESOP Plan.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, based on an estimate of the number of options likely to vest, and the amount is included in the remuneration tables above. Fair values at grant date are determined using Black-Scholes option pricing, Trinominal Lattice and Hoadley's Hybrid models that take into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. Model inputs for options granted during the year are disclosed in note 26 in the financial report.

Details of options over ordinary shares in the company provided as remuneration to each director and each of the key management personnel and the Group are set out below. When exercisable, each option is convertible into one ordinary share of Runge Limited. Further information on the options is set out in note 26 to the financial statements. No options were exercised during the year.

| | Number of options granted during the year | Value of options at grant date* $ | Number of options vested and expired during the year | Number of options lapsed during the year | Value at lapse date** $ |
|---|---|---|---|---|---|
| D Meldrum | 665,000 | 78,970 | - | 202,749 | - |
| C Larsen | 150,000 | 17,700 | - | 202,749 | - |
| V Gauci | - | - | - | 102,000 | - |
| Dr I Runge | - | - | - | - | - |
| R Walker | - | - | - | - | - |
| N Hatherly | - | - | - | - | - |
| K Wallis | 150,000 | 17,700 | - | - | - |
| K Lewis | 150,000 | 17,700 | - | 136,116 | - |
| P Olsen | - | - | - | 568,000 | - |
| S Henderson | - | - | - | 254,116 | - |
| M Kochanowski | 50,000 | 5,900 | - | - | - |

* The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

** The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied. The value of options which lapsed during the 2012 financial year is calculated using the closing share price on the lapse date with the exercise price subtracted. As the exercise price was greater than the share price on the lapse date for all options, the options were valued at zero.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, based on an estimate of the number of options likely to vest, and the amount is included in the remuneration tables above.

## 12. Remuneration Report - Audited (Continued)

### 12C. Bonuses and share-based compensation benefits (Continued)

*Details of remuneration: Bonuses and share-based compensation benefits*

The terms and conditions of each grant of options issued in 2012 are as follows:

Options granted to D Meldrum

| Term/Condition | |
|---|---|
| Value at option grant date | $0.119 |
| Exercise price | $0.40 |
| Expiry date | 30/09/2015 |
| Vesting and exercise date | 1/09/2014 |

Options granted to D Meldrum, C Larsen, K Lewis, K Wallis, M Kochanowski

| Term/Condition | |
|---|---|
| Value at option grant date | $0.118 |
| Exercise price | $0.35 |
| Expiry date | 31/08/2016 |
| Vesting and exercise date | 1/09/2014 |

None of the options granted during the year have been vested or forfeited.

All cash bonuses for Key Management Personnel and Executive Directors were forfeited except for K Lewis whose short term incentive was 100% paid in cash and 0% was forfeited.

No options issued during the year to Key Management Personnel and Executive Directors have vested in the 2012 financial year. Options issued during the year may vest in the year ending 30 June 2015.

## 12. Remuneration Report - Audited (Continued)

### 12D. Service Agreements

Details of contracts with Directors and Executives of the Group are set out below.

| | Terms of agreement | Base salary including superannuation | Termination benefit |
|---|---|---|---|
| D Meldrum | Unlimited in term | $471,000 | 12 months base salary |
| C Larsen | Unlimited in term | $388,500 | 3 months base salary |
| Dr I Runge | Unlimited in term | $80,000 | Nil |
| R Walker | Unlimited in term | $80,000 | Nil |
| A Brackin | Unlimited in term | $120,000 | Nil |
| R Mathews | Unlimited in term | $80,000 | Nil |
| K Wallis | Unlimited in term | $360,000 | 6 months base salary |
| K Lewis | Unlimited in term | $341,613 | 1 month base salary |
| M Kochanowski | Unlimited in term | $239,800 | 3 months base salary |

The key management personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits. Compensation levels are reviewed each year to meet the principles of the compensation policy.

D. Meldrum is entitled to a short term incentive up to 30% of his fixed remuneration, based upon qualitative and quantitative factors.

### 12E. Voting on Remuneration Report

At the last Annual General Meeting (AGM), adoption of the Remuneration Report Resolution was not carried (by 61.7% of the votes cast).

The Directors believe that the base remuneration of the Board and executives reflects market compensation for these roles.

Short Term Incentives (STI) for Directors and Key Management for the FY2012 financial year was limited to one employee and amounted to $56,000 (FY2011: $75,000).

Long Term Incentives (LTI) for Directors and Key Management for the FY2012 year amounted to $67,000 (FY2011: $0).

The Board has and will continue to work with its shareholders so as to fully understand their issues with last years Remuneration Report with the objective of addressing them prior to this year AGM.

**Remuneration Report - END**

## 13. Environmental Legislation

Runge Limited and its controlled entities are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

# DIRECTORS' REPORT

## 14. Shares Under Option

Unissued ordinary shares of Runge Limited under option at the date of this report are as follows:

| Date options granted | Expiry date | Issue price of shares | Number under option |
|---|---|---|---|
| 14/12/2010 | 30/09/2014 | $0.57 | 1,345,000 |
| 30/11/2011 | 30/09/2015 | $0.35 | 500,000 |
| 29/05/2012 | 31/08/2016 | $0.40 | 2,374,000 |
| | | | 4,219,000 |

No option holder has any right under the options to participate in any other share issue of the company or any other entity. No shares were issued under the issue of any options in 2012 and 2011.

## 15. Auditor

BDO East Coast Partnership (formerly PKF East Coast Practice) continues in office in accordance with section 327 of the *Corporations Act 2001.*

There were no non-audit services provided by BDO East Coast Partnership in the 2012 financial year.

## 16. Auditor's Independence Declaration

In accordance with Section 307C of the *Corporations Act 2001*, a copy of the auditor's independence declaration is enclosed on page 30.

## 17. Directors' Interests

The relevant interest of each director in the shares and options issued by the Company, as notified by the directors to the ASX in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

| | Runge Limited | |
|---|---|---|
| | Ordinary shares | Options over ordinary shares |
| A Brackin | 300,000 | - |
| D Meldrum | 5,884,176 | 1,035,749 |
| C Larsen | 4,634,375 | 520,749 |
| Dr I Runge | 16,283,211 | - |
| R Walker | 600,000 | - |
| R Mathews | 6,202,874 | - |

## 18. Rounding of Amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the Directors.

**Allan Brackin**
Chairman
Brisbane
Dated: 28 August 2012

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Australia

**DECLARATION OF INDEPENDENCE BY ALBERT LOOTS TO THE DIRECTORS OF RUNGE LIMITED**

As lead auditor of Runge Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Runge Limited and the entities it controlled during the period.

**A S Loots**
Partner

**BDO East Coast Partnership**

Brisbane, 28 August 2012

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 30 JUNE 2012**

| | Notes | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Services | | 85,588 | 74,467 |
| Licence sales | | 10,895 | 9,940 |
| Software maintenance | | 9,826 | 8,832 |
| Other revenue | | 604 | 974 |
| **Revenue** | | **106,913** | **94,213** |
| Rechargeable expenses | | (7,563) | (8,168) |
| **Net Revenue** | | **99,350** | **86,045** |
| Other income – insurance proceeds | | 1,969 | - |
| **Expenses** | | | |
| Amortisation | 12 | (2,510) | (2,548) |
| Depreciation | 11 | (2,762) | (2,025) |
| Employee benefits | | (62,723) | (53,222) |
| Employment costs | | (3,316) | (2,623) |
| Foreign exchange loss | | (81) | (1,350) |
| Impairment of developed software | 12 | - | (1,016) |
| Office expenses | | (4,673) | (4,183) |
| Professional services | | (2,889) | (1,971) |
| Rent | | (6,904) | (6,218) |
| Travel expenses | | (3,000) | (2,631) |
| Other expenses | | (3,700) | (2,570) |
| | | **(92,558)** | **(80,357)** |
| **Profit before finance costs and income tax** | | **8,761** | **5,688** |
| Finance income | | 148 | 148 |
| Finance costs | | (661) | (719) |
| **Net finance costs** | | **(513)** | **(571)** |
| **Profit before income tax** | 3 | **8,248** | **5,117** |
| Income tax expense | 4 | (2,011) | (1,527) |
| **Profit** | | **6,237** | **3,590** |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 30 JUNE 2012**

| | Notes | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Profit** | | **6,237** | **3,590** |
| **Other comprehensive income** | | | |
| Foreign currency translation differences | | (172) | (1,325) |
| Financial assets at fair value through other comprehensive income | | (103) | (1,498) |
| Income tax attributable to financial assets | | 31 | 449 |
| Other comprehensive income / (loss) | | (244) | **(2,374)** |
| **Total comprehensive income** | | **5,993** | **1,216** |
| | | | |
| **Earnings per share** | | | |
| Basic earnings per share (cents) | 25 | **5.0** | **2.9** |
| Diluted earnings per share (cents) | 25 | **5.0** | **2.9** |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**AS AT 30 JUNE 2012**

| | Notes | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 12,141 | 9,344 |
| Trade and other receivables | 7 | 22,959 | 20,351 |
| Work in progress | 8 | 2,566 | 2,300 |
| Current tax receivable | | 263 | 198 |
| Other assets | 9 | 2,048 | 1,963 |
| Total current assets | | **39,977** | **34,156** |
| **Non-current assets** | | | |
| Trade and other receivables | 7 | 269 | 245 |
| Financial assets | 10 | - | 103 |
| Property, plant and equipment | 11 | 10,199 | 9,051 |
| Deferred tax assets | 5 | 4,807 | 4,199 |
| Intangible assets | 12 | 28,676 | 29,717 |
| Total non-current assets | | **43,951** | **43,315** |
| **Total assets** | | **83,928** | **77,471** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 13 | 7,397 | 7,685 |
| Borrowings | 14 | 5 | 5,455 |
| Provisions | 15 | 7,906 | 6,738 |
| Current tax liabilities | | 873 | 705 |
| Other liabilities | 16 | 10,666 | 8,241 |
| Total current liabilities | | **26,847** | **28,824** |
| **Non-current liabilities** | | | |
| Borrowings | 14 | 5,013 | 18 |
| Provisions | 15 | 197 | 116 |
| Deferred tax liabilities | 5 | 47 | 47 |
| Other liabilities | 16 | 3,504 | 3,775 |
| Total non-current liabilities | | **8,761** | **3,956** |
| **Total liabilities** | | **35,608** | **32,780** |
| **Net assets** | | **48,320** | **44,691** |
| **EQUITY** | | | |
| Contributed equity | 17 | 39,418 | 39,408 |
| Reserves | 18 | (4,135) | (3,999) |
| Retained profits | 18 | 13,037 | 9,282 |
| **Total equity** | | **48,320** | **44,691** |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 30 JUNE 2012**

| | Contributed equity | Reserves | Retained profits | Total equity |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 July 2011** | **39,408** | **(3,999)** | **9,282** | **44,691** |
| Profit for the year | - | - | 6,237 | 6,237 |
| Other comprehensive income | - | (244) | - | (244) |
| **Total comprehensive income** | **-** | **(244)** | **6,237** | **5,993** |
| **Transactions with owners in their capacity as owners** | | | | |
| Payments received on partly paid shares | 10 | - | - | 10 |
| Employee share options | - | 108 | - | 108 |
| Dividends paid | - | - | (2,482) | (2,482) |
| | **10** | **108** | **(2,482)** | **(2,364)** |
| **Balance at 30 June 2012** | **39,418** | **(4,135)** | **13,037** | **48,320** |
| | | | | |
| **Balance at 1 July 2010** | **39,407** | **(1,671)** | **6,933** | **44,669** |
| Profit for the year | - | - | 3,590 | 3,590 |
| Other comprehensive income | - | (2,374) | - | (2,374) |
| **Total comprehensive income** | **-** | **(2,374)** | **3,590** | **1,216** |
| **Transactions with owners in their capacity as owners** | | | | |
| Payments received on partly paid shares | 1 | - | - | 1 |
| Employee share options | - | 46 | - | 46 |
| Dividends paid | - | - | (1,241) | (1,241) |
| | **1** | **46** | **(1,241)** | **(1,194)** |
| **Balance at 30 June 2011** | **39,408** | **(3,999)** | **9,282** | **44,691** |

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF CASHFLOWS

**FOR THE YEAR ENDED 30 JUNE 2012**

| | Notes | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 112,195 | 101,145 |
| Payments to suppliers and employees | | (100,072) | (87,362) |
| | | 12,123 | 13,783 |
| Proceeds from Key Man insurance | | 1,969 | - |
| Interest received | | 148 | 148 |
| Finance costs | | (661) | (719) |
| Income taxes paid | | (2,514) | (1,449) |
| **Net cash inflow from operating activities** | 23 | **11,065** | **11,763** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (3,831) | (2,921) |
| Proceeds from sale of property, plant and equipment | | 45 | - |
| Payments for intangible assets | | (1,404) | (1,537) |
| **Net cash outflow from investing activities** | | **(5,190)** | **(4,458)** |
| **Cash flows from financing activities** | | | |
| Proceeds from partly paid shares | | 10 | 1 |
| Repayment of finance leases | | (5) | (9) |
| Proceeds from borrowings | | 5,650 | 1,000 |
| Repayment of borrowings | | (6,100) | (6,150) |
| Dividends paid | | (2,482) | (1,241) |
| **Net cash inflow/(outflow) from financing activities** | | **(2,927)** | **(6,399)** |
| **Net increase/(decrease) in cash and cash equivalents held** | | 2,948 | 906 |
| Cash and cash equivalents at the beginning of the financial year | | 9,344 | 9,304 |
| Effects of exchange rate changes on cash and cash equivalents | | (151) | (866) |
| **Cash and cash equivalents at the end of the financial year** | 6 | **12,141** | **9,344** |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes*

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial report comprises the consolidated entity ("Group") consisting of Runge Limited and its subsidiaries.

### (a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001.* Runge Limited is a for-profit entity for the purposes of preparing the financial statements.

*Compliance with IFRS*

The consolidated financial statements of Runge Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets at fair value. The method used to measure fair values is discussed further below.

*New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2011:

- AASB 1054 Australian Additional Disclosures
- Revised AASB 124: Related Party Disclosures (December 2009)
- AASB 2009-12 Amendments to Australian Accounting Standards
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets

The adoption of these standards did not have any material impact on the current or any prior period and is not likely to materially affect future periods.

### (b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Runge Limited as at 30 June 2012 and the results of all controlled entities for the year then ended. Runge Limited and its controlled entities together are referred to in this financial report as the "consolidated entity" or the "Group".

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

# NOTES ON THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies (Continued)**

**(b) Principles of Consolidation (Continued)**

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1 (k)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(c) Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses in the tax jurisdiction in which they arose.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

*Tax consolidation legislation*

Runge Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Runge Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Runge Limited also recognises the current tax liabilities or assets and the deferred tax assets arising from the unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

# NOTES ON THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies (Continued)**

**(c) Income Tax (Continued)**

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable or payable to other entities in the Group. Details about the tax funding agreements are disclosed in note 4.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

**(d) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operational decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director.

The assets and liabilities of the Group are regularly reviewed on a consolidated basis but are not regularly reported to the chief operating decision maker at a segment level. As such this information has not been included in the Operating Segment note (note 2).

**(e) Foreign Currency Translation**

*i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Runge Limited's functional and presentation currency.

*ii) Transactions and balances*

Foreign currency transactions are initially translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities whose changes in the fair value are presented in other comprehensive income are recognized in other comprehensive income.

*iii) Group entities*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates; and

# NOTES ON THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies (Continued)**

**(e) Foreign Currency Translation (Continued)**

- all resulting exchange differences are recognised in other comprehensive income.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

**(f) Revenue Recognition**

*i) Sale of licences*

Revenue from the sale of licences is recognised when the amount can be reliably measured and all significant risks and rewards of ownership have been transferred to the buyer. In most cases this coincides with the transfer of legal title or the passing of possession to the buyer.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

*ii) Consulting*

Revenue from the provision of consulting services is recognised on an accruals basis in the period in which the consulting service is provided. Revenue from the provision of these services is calculated with reference to the professional staff hours incurred on each client assignment adjusted for any time that may not be recoverable.

*iii) Software maintenance*

When the outcome of a transaction involving software maintenance can be estimated reliably, revenue associated with the transaction is recognised on a straight-line basis over the service period.

*iv) Interest revenue*

Interest revenue is recognised using the effective interest method. It includes the amortisation of any discount or premium.

**(g) Trade Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the allowance is recognised in other expenses in profit or loss. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

## 1. Summary of Significant Accounting Policies (Continued)

### (h) Work in Progress

Work in progress represents costs incurred and profit recognised on client assignments and services that are in progress at balance date. Work in progress is valued at net realisable value after providing for any foreseeable losses.

### (i) Investments and other financial assets

All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the group can make an irrevocable election at initial recognition of each investment to recognise changes in fair value through other comprehensive income (OCI) rather than profit or loss.

All current investments in equity investments are classified as at fair value through other comprehensive income. Such investments are initially and subsequently measured at fair value, with the initial fair value being cost.

Unrealised gains or losses on investments in an equity instrument are recognised in a reserve until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss is transferred to the Asset Realisation Reserve.

The Company derecognises an investment in an equity instrument when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 9. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the revaluation reserve to the realisation reserve.

Interest bearing investments are recognised initially at fair value and are subsequently measured at amortised cost. Amortised cost is calculated with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the investment on an effective interest basis.

### (j) Leases

Leases of property, plant and equipment, where the Group as lessee has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight line basis over the lease term.

### (k) Business Combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

# NOTES ON THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies (Continued)**

**(k) Business Combinations (Continued)**

The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

**(l) Impairment of Assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(m) Cash and Cash Equivalents**

For cash flow statement presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily converted to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

# NOTES ON THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies (Continued)**

**(n) Property, Plant and Equipment**

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment over its estimated useful life to the consolidated entity, or in case of lease hold improvements, the shorter lease term. Estimates of remaining useful lives are made on a regular basis for all assets. The estimated useful lives are as follows:

| | |
|---|---|
| Plant and equipment | 2 – 12 years |
| Plant and equipment under finance lease | 3 - 5 years |

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the assets. These are included in profit or loss.

**(o) Intangible Assets**

*i) Software developed or acquired for sales and licensing*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs and acquired software are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight line basis over its useful life, which varies from three to five years.

*ii) Software – internal management systems*

Software licences used in internal management systems, whether acquired or internally developed are stated at cost less amortisation. They are amortised on a straight line basis over the useful life from 2.5 to 5 years.

*iii) Patents and trademarks*

Costs associated with patents and trademarks are expensed as incurred.

*iv) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/business at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from business combination in which goodwill arose, identified according to operating segments or components of operating assets (note 2).

# NOTES ON THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies (Continued)**

**(o) Intangible Assets (Continued)**

*v) Customer relationships and contracts*

Customer relationships and contracts acquired as part of a business combination are recognised separately from goodwill. The customer relationships and contracts are carried at their fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated on the straight line basis and utilises an estimated useful life of the customer relationships and contracts, which is estimated to be between 2.5 -5 years.

**(p) Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(q) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(r) Borrowing Costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

**1. Summary of Significant Accounting Policies (Continued)**

**(s) Employee Benefits**

*i) Short term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and long service leave is recognised in the provision for employee benefits.

*Other long-term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*ii) Bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

*iii) Superannuation*

The Group has a defined contribution superannuation plan for its eligible employees. Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

*iv) Share-based payments*

Share-based compensation benefits are provided to employees via the Runge Limited employee share option plan (ESOP) and an employee share purchase plan. Information relating to these schemes is set out in note 26.

The fair value of options granted under the ESOP is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions, but excludes the impact of any service and non-market performance vesting conditions.

# NOTES ON THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies (Continued)**

**(s) Employee Benefits (Continued)**

*v) Share-based payments (Continued)*

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

**(t) Value Added Taxes (including Goods and Services Tax)**

Revenues, expenses and assets are recognised net of the amount of Value Added Tax (VAT), except where the amount of VAT is not recoverable from the relevant tax authority. In these circumstances the VAT is recognised as part of the cost of acquisition of the asset or as part of the item as expense.

Receivables and payables are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the relevant tax authority is included as a current asset or liability in the statement of financial position.

Cash flows are presented on a gross basis. The VAT components of the cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant tax authority are classified as operating cash flows.

**(u) Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(v) Earnings per share**

*i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year.

*ii) Diluted earnings per share*

Dilutive earnings per share adjusts the figures used in determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

# NOTES ON THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies (Continued)**

**(w) Financial Guarantee Contracts**

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

**(x) Rounding of amounts**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**(y) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(z) Critical Accounting Estimates and Significant Judgments**

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The notes in the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial report such as:

- intangible assets, including goodwill (note 12),
- impairment of receivables (note 7 and note (1g)).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparation of the financial report are reasonable.

**(aa) Parent entity financial information**

The financial information for the parent entity, Runge Limited, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements, except as set our below:

*(i) Investments in subsidiaries*

Investment in subsidiaries are accounted for at cost in the financial statements of Runge Limited.

# NOTES ON THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies (Continued)**

**(bb) New Accounting Standards and Interpretations not yet adopted**

Relevant accounting standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2012, are as follows:

| Standard/Interpretation | Application date* | Application date for the Group* |
|---|---|---|
| AASB 2011-9 – *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* | 1 Jul 2012 | 1 Jul 2012 |
| AASB 10 *Consolidated Financial Statements* | 1 Jan 2013 | 1 Jul 2013 |
| AASB 12 *Disclosure of Interests in Other Entities* | 1 Jan 2013 | 1 Jul 2013 |
| AASB 13 *Fair Value Measurement* | 1 Jan 2013 | 1 Jul 2013 |
| AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosures* | 1 Jul 2013 | 1 Jul 2013 |
| AASB 2012-2 & AASB 2012-3 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 & AASB 132]* | 1 Jan 2013 & 1 Jan 2014 | 1 Jul 2013 & 1 Jul 2014 |
| AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle [AASB 1, AASB 101, AASB 116, AASB 132 & AASB 134 and Interpretation 2]* | 1 Jan 2013 | 1 Jul 2013 |

* *Application date is for annual reporting periods beginning on or after the date shown in the above table.*

The Directors anticipate that the adoption of these Standards and Interpretations in future years may have the following impacts:

AASB 2011-9 – will result in a requirement to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments are expected to result in minor cosmetic changes to the face of the statement of comprehensive income of the Group.

AASB 10 - This standard replaces part of AASB 127: 'Consolidated and Separated Financial Statements' and introduces a new definition of control that determines which entities are consolidated, which requires that three elements of control (power over investee, exposure or rights to variable returns, and ability to use power to affect such returns) must be present in order to conclude that an investor controls an investee. The Group does not consider that the application of this new standard will have an impact upon the composition of the consolidated entity

AASB 12 - provides the disclosure requirements for entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. As such, it pulls together and replaces disclosure requirements from many existing standards. The Group has not yet made an assessment as to the potential effect of this standard on the Group's financial statements.

AASB 13 - Establishes a single course of guidance for determining the fair value of assets and liabilities. The application of this standard is not expected to impact upon the Group's fair value measurements of disclosures thereof.

AASB 2012-2, AASB 2012-3 and AASB 2012-5 – These amendments introduce various changes to IFRSs. The Directors have not yet assessed the impact of the amendments, if any.

# NOTES ON THE FINANCIAL STATEMENTS

**2. Operating Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the Managing Director in order to make decisions about resource allocations and to assess performance of the Group. The reports are split into geographical areas.

The Managing Director monitors the following segments: Australia (Brisbane, Sydney, Maitland and Perth), Asia (China, Indonesia, Hong Kong, Mongolia and Russia), America (Canada, United States of America, Chile, Brazil) and Africa (South Africa).

Malaysia is combined with the Brisbane office for segment reporting purposes as it primarily operates in conjunction with Brisbane in the development and testing of software products.

GeoGAS operations are based in Australia (Brisbane, Wollongong and Mackay) and are reported separately as it provides different services and is managed separately.

Segment revenue, expenses and results include transfers between segments. Such transfers are priced on an “arms-length” basis and are eliminated on consolidation. Each segment, other than GeoGAS, sells all the products and services provided by the Group.

Reconciliation of segment profit to reported net profit:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Segment profit | 23,246 | 22,851 |
| Adjustments: | | |
| Amortisation | (2,510) | (2,548) |
| Foreign exchange gains/(losses) | (81) | (1,350) |
| Impairment of developed software | - | (1,016) |
| Life insurance proceeds | 1,969 | - |
| Net unallocated corporate cost, excluding employee benefits | (7,387) | (5,247) |
| Unallocated employee benefits | (6,475) | (7,002) |
| Finance income | 148 | 148 |
| Finance costs | (662) | (719) |
| Profit before income tax | 8,248 | 5,117 |
| Income tax expense | (2,011) | (1,527) |
| Net profit | **6,237** | **3,590** |

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is $35,930,000 (2011 - $36,241,000), and the total of these non-current assets located in other countries is $3,214,000 (2011 - $2,875,000).

Reconciliation of operating segment depreciation, revenue and employee benefits to amounts reported in the statement of comprehensive income:

| | Net Revenue | | Employee Benefits | | Depreciation | |
|---|---|---|---|---|---|---|
| | 2012 $’000 | 2011 $’000 | 2012 $’000 | 2011 $’000 | 2012 $’000 | 2011 $’000 |
| Operating segment | 98,897 | 85,279 | 56,248 | 46,220 | 2,255 | 1,860 |
| Net unallocated corporate cost | 453 | 766 | 6,475 | 7,002 | 507 | 165 |
| Reported | 99,350 | 86,045 | 62,723 | 53,222 | 2,762 | 2,025 |

# NOTES ON THE FINANCIAL STATEMENTS

## 2. Operating Segments (Continued)

| 2012 | Australia $'000 | GeoGAS $'000 | Asia $'000 | America $'000 | Africa $'000 | Elimin-ations $'000 | Group $'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Services | 33,996 | 11,839 | 18,418 | 18,407 | 2,927 | - | 85,587 |
| Licence sales | 5,341 | - | 1,619 | 2,327 | 1,608 | - | 10,895 |
| Software maintenance | 5,019 | - | 684 | 2,175 | 1,948 | - | 9,826 |
| Other revenue | 6 | 13 | 128 | 5 | - | - | 152 |
| Total External sales | **44,362** | **11,852** | **20,849** | **22,914** | **6,483** | **-** | **106,460** |
| Inter-segment sales | 8,953 | 143 | 4,484 | 2,775 | 159 | (16,514) | |
| **Total sales** | **53,315** | **11,995** | **25,333** | **25,689** | **6,642** | **(16,514)** | **106,460** |
| Rechargeable expenses | (3,001) | (854) | (9,946) | (8,067) | (2,209) | 16,514 | (7,563) |
| **Net revenue** | **50,314** | **11,141** | **15,387** | **17,622** | **4,433** | **-** | **98,897** |
| **Expenses** | | | | | | | |
| Salaries | 30,339 | 4,497 | 7,623 | 10,248 | 3,541 | - | 56,248 |
| Depreciation | 1,081 | 848 | 172 | 75 | 79 | - | 2,255 |
| Other expenses | 7,519 | 2,680 | 2,944 | 2,717 | 1,288 | - | 17,148 |
| | **38,939** | **8,025** | **10,739** | **13,040** | **4,908** | **-** | **75,651** |
| **Segment profit** | **11,375** | **3,116** | **4,648** | **4,582** | **(475)** | **-** | **23,246** |
| **2011** | | | | | | | |
| **Revenue** | | | | | | | |
| Services | 33,309 | 7,904 | 15,312 | 15,632 | 2,310 | - | 74,467 |
| Licence sales | 4,960 | - | 1,173 | 3,074 | 733 | - | 9,940 |
| Software maintenance | 4,965 | - | 333 | 1,809 | 1,725 | - | 8,832 |
| Other revenue | 53 | 59 | 52 | 46 | 2 | - | 212 |
| Total External sales | **43,287** | **7,963** | **16,870** | **20,561** | **4,770** | **-** | **93,451** |
| Inter-segment sales | 8,074 | 30 | 3,675 | 2,126 | 163 | (14,068) | - |
| **Total sales** | 51,361 | 7,993 | 20,545 | 22,687 | 4,933 | (14,068) | **93,451** |
| Rechargeable expenses | (3,860) | (714) | (8,718) | (7,386) | (1,562) | 14,068 | (8,172) |
| **Net revenue** | **47,501** | **7,279** | **11,827** | **15,301** | **3,371** | **-** | **85,279** |
| **Expenses** | | | | | | | |
| Salaries | 26,784 | 3,104 | 5,159 | 9,123 | 2,050 | - | 46,220 |
| Depreciation | 1,289 | 289 | 136 | 100 | 46 | - | 1,860 |
| Other expenses | 7,723 | 977 | 2,464 | 2,542 | 642 | - | 14,348 |
| | 35,796 | 4,370 | 7,759 | 11,765 | 2,738 | **-** | **62,428** |
| **Segment profit** | **11,705** | **2,909** | **4,068** | **3,536** | **633** | **-** | **22,851** |

# NOTES ON THE FINANCIAL STATEMENTS

## 3. Profit Before Income Tax

| Profit before income tax includes the following specific expenses / (income) | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Life insurance proceeds | (1,969) | - |
| Defined contributions superannuation expense | 2,628 | 2,603 |
| Impairment of receivables | 60 | 267 |
| Reduction in provision for impairment of receivables | (141) | (15) |
| Legal costs - USA litigation | 32 | 162 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | 6,018 | 5,545 |
| Net loss on disposal of plant and equipment | 63 | 77 |
| Foreign exchange (gains) / losses | 81 | 1,350 |
| *Finance costs* | | |
| Interest expense on borrowings measured at amortised cost | 661 | 719 |

## 4. Income Tax Expense

| | | |
|---|---|---|
| *Income tax expense* | | |
| Current tax | 2,813 | 2,776 |
| Deferred tax | (899) | (1,227) |
| Adjustments to prior periods | 97 | (22) |
| Income tax expense | **2,011** | **1,527** |
| | | |
| *Numerical reconciliation of income tax expense to prima facie tax* | | |
| Profit before income tax | 8,248 | 5,117 |
| Tax at the Australian tax rate of 30% (2011 - 30%) | 2,474 | 1,535 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Attributed income | 30 | 24 |
| Non-deductible expense / (non-assessable income) | (323) | 116 |
| Research and development deduction | (232) | (30) |
| | 1,949 | 1,645 |
| Difference in overseas tax rates | (35) | (96) |
| Adjustments to prior periods | 97 | (22) |
| **Income tax expense** | **2,011** | **1,527** |

## 4. Income Tax Expense (Continued)

*Tax consolidation legislation*

Runge Limited and its wholly-owned Australian controlled entities implemented the tax consolidation regime from 13 March 2007.

On adoption of the tax consolidation legislation, the entities in the tax consolidated Group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Runge Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Runge Limited for any current tax payable assumed and are compensated for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Runge Limited under the tax consolidated legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

## 5. Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Provision for impairment of receivables | 79 | 137 |
| Employee benefits provision | 2,239 | 1,926 |
| Lease incentive liabilities | 1,274 | 1,265 |
| Tax loss | 482 | 400 |
| Unearned income | 333 | 350 |
| Accrued expenses | 726 | 730 |
| Share capital raising costs | 60 | 285 |
| Financial assets at fair value | 483 | 449 |
| Other deferred tax assets | 427 | 227 |
| Development costs – software | (519) | (504) |
| Work in progress | (91) | (440) |
| Intangibles | 47 | 9 |
| Property, plant and equipment | (467) | (423) |
| Prepayments | (266) | (243) |
| Other deferred tax liabilities | (47) | (16) |
| Deferred tax assets | 4,807 | 4,199 |
| Deferred tax liabilities | (47) | (47) |
| **Net tax assets/(liabilities)** | **4,760** | **4,152** |
| **Movements** | | |
| Balance at 1 July | 4,152 | 2,194 |
| Recognised in profit and loss | 899 | 1,227 |
| Recognised in other comprehensive income | 31 | 449 |
| Adjustments to prior periods | (322) | 282 |
| Balance at 30 June | **4,760** | **4,152** |

# NOTES ON THE FINANCIAL STATEMENTS

| 6. Cash and Cash Equivalents | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Cash at bank | 8,190 | 9,338 |
| Deposits | 3,951 | 6 |
| | **12,141** | **9,344** |

## 7. Trade and Other Receivables

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | 23,141 | 20,595 |
| Provision for impairment of receivables | (282) | (415) |
| | 22,859 | 20,180 |
| Other receivables | 100 | 171 |
| | **22,959** | **20,351** |
| **Non-current** | | |
| Other receivables - refundable deposits | 269 | 245 |
| | **269** | **245** |

As at 30 June 2012, trade receivables of $10,733 (2011 – $9,083) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing of the trade receivables past due at the reporting date but not impaired was:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Past due less than 30 days | 5,184 | 4,135 |
| Past due between 31-90 days | 3,016 | 2,659 |
| Past due more than 90 days | 2,533 | 2,289 |
| | **10,733** | **9,083** |

The movement in the provision for impairment of trade receivables was as follows:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Balance at 1 July | 415 | 233 |
| Provision no longer required | (141) | (15) |
| Debtors written off | (58) | (53) |
| Impairment loss recognised | 60 | 267 |
| Effect of foreign exchange | 6 | (17) |
| Balance at 30 June | **282** | **415** |

The provision for impairment of trade receivables in 2012 and 2011 relates to receivables that are past due for more than 90 days.

## 8. Work in Progress

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Work in progress | **2,566** | **2,300** |

## 9. Other Assets

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Prepayments | **2,048** | **1,963** |

# NOTES ON THE FINANCIAL STATEMENTS

## 10. Financial Assets at Fair Value through Other Comprehensive Income

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Non-current** | | |
| **Financial Assets: at Fair Value through Other Comprehensive Income** | | |
| Investments in equity instruments | - | 103 |

## 11. Property, Plant and Equipment

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Plant and equipment - at cost | 17,756 | 15,343 |
| Less: accumulated depreciation | (7,760) | (6,345) |
| | 9,996 | 8,998 |
| Plant and equipment under finance lease | 252 | 120 |
| Less: accumulated depreciation | (49) | (67) |
| | 203 | 53 |
| | **10,199** | **9,051** |

| | Plant and equipment | | |
|---|---|---|---|
| | Owned $'000 | Under finance lease $'000 | Total $'000 |
| **2012** | | | |
| Balance at 1 July 2011 | 8,998 | 53 | 9,051 |
| Exchange differences | (37) | (19) | (56) |
| Additions | 3,850 | 224 | 4,074 |
| Disposals | (71) | (37) | (108) |
| Depreciation | (2,744) | (18) | (2,762) |
| **Balance at 30 June 2012** | **9,996** | **203** | **10,199** |
| **2011** | | | |
| Balance at 1 July 2010 | 8,248 | 80 | 8,328 |
| Exchange differences | (138) | (9) | (147) |
| Additions | 2,914 | 7 | 2,921 |
| Disposals | (26) | - | (26) |
| Depreciation | (2,000) | (25) | (2,025) |
| **Balance at 30 June 2011** | **8,998** | **53** | **9,051** |

# NOTES ON THE FINANCIAL STATEMENTS

| 12. Intangible Assets | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Software developed for sale and licensing – at cost | 2,767 | 2,313 |
| Less: accumulated amortisation | (1,038) | (634) |
| | 1,729 | 1,679 |
| Software acquired for sale and licensing – at cost | 2,947 | 2,947 |
| Less: accumulated amortization | (2,818) | (2,213) |
| | 129 | 734 |
| Software – internal management systems – at cost | 6,399 | 5,751 |
| Less: accumulated amortization | (3,871) | (3,073) |
| | 2,528 | 2,678 |
| Customer relationships and contracts – at cost | 1,494 | 1,494 |
| Less: accumulated amortization | (1,494) | (1,094) |
| | - | 400 |
| Goodwill – at cost | 24,290 | 24,226 |
| **Total** | **28,676** | **29,717** |

| | Software | | | Customer relationships and contracts | Goodwill | Total |
|---|---|---|---|---|---|---|
| | Developed | Acquired | Internal systems | | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2012** | | | | | | |
| Balance at 1 July 2011 | **1,679** | **734** | **2,678** | **400** | **24,226** | **29,717** |
| Additions | 454 | - | 950 | | - | 1,404 |
| Disposal | - | - | - | - | - | - |
| Exchange differences | - | - | 1 | - | 64 | 65 |
| Amortisation * | (404) | (605) | (1,101) | (400) | - | (2,510) |
| **Balance at 30 June 2012** | **1,729** | **129** | **2,528** | **-** | **24,290** | **28,676** |
| **2011** | | | | | | |
| Balance at 1 July 2010 | 2,665 | 1,312 | 2,617 | 997 | 24,593 | 32,184 |
| Additions | 543 | 50 | 944 | - | - | 1,537 |
| Impairment | (1,016) | - | - | - | - | (1,016) |
| Disposal | - | - | (41) | - | - | (41) |
| Exchange differences | - | - | (32) | - | (367) | (399) |
| Amortisation * | (513) | (628) | (810) | (597) | - | (2,548) |
| **Balance at 30 June 2011** | **1,679** | **734** | **2,678** | **400** | **24,226** | **29,717** |

* Amortisation of $2,510,000 (2011: $2,548,000) is included in amortisation expense in profit or loss.

**Impairment Tests for Goodwill**

Goodwill is allocated to the Group's cash generating units (CGUs) according to business unit and the country of operation.

# NOTES ON THE FINANCIAL STATEMENTS

## 12. Intangible Assets (Continued)

**Impairment Tests for Goodwill (Continued)**

A segment level summary of the goodwill is presented below.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Australia | 17,547 | 17,547 |
| Australia – GeoGAS | 4,921 | 4,921 |
| USA | 1,439 | 1,375 |
| South Africa | 383 | 383 |
| | **24,290** | **24,226** |

In the current and prior years the recoverable amount of the CGUs has been determined by value-in-use calculations. These calculations were based on the following key assumptions:

| | Margin[1] | | Growth Rate[2] | | Discount Rate[3] | |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Australia | 16% | 20% | 2.5% | 2.5% | 15% | 17% |
| Australia – GeoGAS | 31% | 30% | 2.5% | 2.5% | 15% | 17% |
| USA | 16% | 17% | 1.0% | 1.0% | 12% | 13% |
| South Africa | 10% | 11% | 2.5% | 2.5% | 17% | 18% |

[1] Budgeted gross margin
[2] Weighted average growth rate used to extrapolate cash flows beyond the budget period
[3] In performing the value-in-use calculations for each CGU, the group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

These assumptions have been used for the analysis of each CGU. Cash flows were projected based on approved financial budgets and management projections over a five year period. Management determined budgeted gross margin based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segments and the countries in which they operate.

The calculations at balance date indicated no impairment of goodwill.

If pre-tax discount rate applied to the cash projections of all CGUs was increased by 500 basis points to be in a range between 17% and 22%, the recoverable amount of any CGU's goodwill is still greater than its carrying amount.

**Impairment charge**

The impairment charge recorded in 2011 of $1,016,000 arose in the Australian CGU following a decision to cease use of certain software. No class of asset other than Intangibles – Developed Software - were impaired.

## 13. Trade and Other Payables

| **Current** | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Trade payables | 3,332 | 3,142 |
| Other payables and accruals | 4,065 | 4,543 |
| | **7,397** | **7,685** |

## 14. Borrowings

| Current | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Lease liabilities (note 22) | 5 | 5 |
| Bank loans – secured | - | 5,450 |
| | **5** | **5,455** |
| **Non-current** | | |
| Lease liabilities (note 22) | 13 | 18 |
| Bank loans - secured | 5,000 | - |
| | **5,013** | **18** |

### Terms and Conditions

| Borrowing facilities | Currency | Nominal interest rate | Maturity | 2012 Facility $'000 | 2012 Utilised $'000 | 2011 Facility $'000 | 2011 Utilised $'000 |
|---|---|---|---|---|---|---|---|
| Secured loan | **AUD** | - | - | - | - | 1,300 | 1,300 |
| Secured loan | **AUD** | 5.75% | Sep 2014 | 15,000 | 5,000 | 15,000 | 4,150 |
| Finance leases | **CAD** | 4.90% | Oct 2013 | 18 | 18 | 23 | 23 |
| **Loans and Borrowings** | | | | **15,018** | **5,018** | **16,323** | **5,473** |
| **Other facilities** | | | | | | | |
| Bank guarantee | **AUD** | 2% | | 3,112 | 2,539 | 3,112 | 2,768 |

The Australian dollar loan facilities including the bank guarantee are secured by a first registered equitable mortgage over the Group's assets, including uncalled capital.

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

## 15. Provisions

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Current** | | |
| Employee benefits | **7,906** | **6,738** |
| **Non-current** | | |
| Employee benefits | **197** | **116** |

## 16. Other Liabilities

| Current | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Unearned income - software maintenance | 5,528 | 4,962 |
| Unearned income - consulting and other | 4,459 | 2,616 |
| Lease incentive and make good obligations | 679 | 663 |
| | **10,666** | **8,241** |

# NOTES ON THE FINANCIAL STATEMENTS

## 16. Other Liabilities (Continued)

| Non-current | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Lease incentive and make good obligations | **3,504** | **3,775** |

## 17. Contributed Equity

| | | 2012 Number | 2011 Number | 2012 $'000 | 2011 $'000 |
|---|---|---|---|---|---|
| **Share capital** | | | | | |
| Ordinary shares | - fully paid | 124,034,845 | 123,971,410 | 39,402 | 39,381 |
| | - partially paid | 45,155 | 108,590 | 16 | 27 |
| | | **124,080,000** | **124,080,000** | **39,418** | **39,408** |

**Movements in Share Capital:**

| Date | | Notes | Ordinary shares Number | Ordinary shares $'000 |
|---|---|---|---|---|
| **30/06/10** | **Balance** | | **124,080,000** | **39,407** |
| | Partly paid shares paid up | | - | 1 |
| **30/06/11** | **Balance** | | **124,080,000** | **39,408** |
| | Partly paid shares paid up | | - | 10 |
| **30/06/12** | **Balance** | | **124,080,000** | **39,418** |

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a showing of hands every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one vote and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

### Options

Information relating to the Runge Employee Share Option Plan (ESOP), including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of financial year, is set out in note 26.

### Capital Risk Management

The Group's objectives when managing capital include safeguarding the ability to continue as a going concern, so they continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group does not have any externally imposed capital requirements.

## 17. Contributed Equity (Continued)

**Capital Risk Management (Continued)**

Consistent with the industry practice, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The gearing ratios at 30 June 2012 and 30 June 2011 were as follows:

| | Notes | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|---|
| Total borrowings, trade and other payables | | 12,415 | 13,158 |
| Less: cash and cash equivalents | 6 | (12,141) | (9,344) |
| Net debt | | 274 | 3,814 |
| Total equity | | 48,320 | 44,691 |
| **Total capital** | | **48,594** | **48,505** |
| Gearing ratio | | 0.6% | 7.9% |

## 18. Reserves and Retained Profits

| **Reserves** | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Share-based payments (i) | 726 | 618 |
| Foreign currency translation (ii) | (2,205) | (2,033) |
| Financial assets revaluation reserve (iii) | (1,121) | (1,049) |
| Revaluation surplus | 18 | 18 |
| Reserve arising from an equity transaction (iv) | (1,553) | (1,553) |
| | **(4,135)** | **(3,999)** |

**Nature and Purpose of Reserves**

*(i) Share-based payments*

The fair value of options issued to employees is recognised as an employment cost during the option vesting period with corresponding increase in equity recognised in the employee option reserve.

*(ii) Foreign currency translation*

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in accounting policy note 1(e).

*(iii) Financial assets revaluation reserve*

Changes in the fair value of investments are recognized in equity securities in other comprehensive income. These changes are accumulated in a separate reserve within equity. The entity has a policy on transferring amounts from this reserve to an asset realization reserve.

*Reserve arising from an equity transaction*

This reserve arose from the acquisition of an additional interest in the controlled entity, MRM Mining Services (Pty) Ltd.

# NOTES ON THE FINANCIAL STATEMENTS

## 18. Reserves and Retained Profits (Continued)

### Movement in Reserves

| | Share-based payments | | Foreign Currency Translation | | Financial Revaluation Reserve | |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Balance at 1 July | 618 | 572 | (2,033) | (708) | (1,049) | - |
| Options expensed | 108 | 46 | - | - | - | - |
| Change in fair value | - | - | - | - | (103) | (1,498) |
| Income tax | - | - | - | - | 31 | 449 |
| Foreign currency translation | - | - | (172) | (1,325) | - | - |
| Balance at 30 June | **726** | **618** | **(2,205)** | **(2,033)** | **(1,121)** | **(1,049)** |

There were no other movements in reserves in 2012 and 2011.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Retained Profits** | | |
| Balance at 1 July | 9,282 | 6,933 |
| Net profit for the year | 6,237 | 3,590 |
| Dividends provided for or paid | (2,482) | (1,241) |
| **Balance at 30 June** | **13,037** | **9,282** |

## 19. Dividends

| | | |
|---|---|---|
| Dividends paid in cash during the year were: | | |
| Interim dividend of 1.0 cents per share unfranked paid on 7 April 2011 | - | 1,241 |
| Final dividend of 1.0 cents per share unfranked paid on 6 October 2011 | 1,241 | - |
| Interim dividend of 1.0 cents per share unfranked paid on 5 April 2012 | 1,241 | - |
| | 2,482 | 1,241 |

Subsequent to year end, the directors have declared a final ordinary 50% franked dividend of 1 cent per share and a special unfranked dividend of 1 cent per share. The aggregate amount of the proposed dividends expected to be paid on 5 October 2012, but not recognised liability at year end is $2,481,600.

### Franked Dividends

| | | |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2011 – 30%) | 433 | 65 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for any:

(a) franking credits that will arise from the payment of the current tax liability;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date;

(d) franking credits that may be prevented from being distributed in subsequent financial years; and

(e) franking credits acquired with subsidiaries that form a tax consolidated group with the parent entity.

# NOTES ON THE FINANCIAL STATEMENTS

## 20. Key Management Personnel Disclosures

### (a) Key Management Personnel Compensation

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Short term employee benefits | 2,287,762 | 2,512,906 |
| Post-employment benefits | 151,505 | 241,454 |
| Termination benefits | 76,667 | 554,927 |
| Share-based payments | 67,757 | (144) |
| | **2,583,691** | **3,309,143** |

### (b) Shareholdings by Key Management Personnel

The number of shares and options over shares in the Company held during the financial year by each Director of Runge Limited and each of the other key management personnel of the Group, including their personally-related entities, is set out below:

*(i) Ordinary Shares*

| | Balance 1 July 2010 | Sold during the year | Acquired during the year * | Balance 30 June 2011 | Sold during the year | Acquired during the year* | Balance 30 June 2012 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| V Gauci | 853,471 | - | 250,000 | 1,103,471 | - | - | 1,103,471** |
| A Kinnane | 10,121,171 | - | 100,000 | 10,221,171** | - | - | - |
| C Larsen | 4,634,375 | - | - | 4,634,375 | - | - | 4,634,375 |
| D Meldrum | 5,692,910 | - | - | 5,692,910 | - | 191,266 | 5,884,176 |
| Dr I Runge | 16,091,945 | - | - | 16,091,945 | - | 191,266 | 16,283,211 |
| R Walker | 150,000 | - | 250,000 | 400,000 | - | 200,000 | 600,000 |
| N Hatherly | - | - | 100,000 | 100,000 | - | - | 100,000** |
| A Brackin | - | - | - | - | - | 300,000 | 300,000 |
| R Mathews | - | - | - | 6,202,874*** | - | - | 6,202,874 |
| **Other key management personnel of the Group** | | | | | | | |
| J Sloman | 15,000 | - | - | 15,000** | - | - | - |
| K Lewis | - | - | - | - | - | - | - |
| K Wallis | - | - | - | - | - | - | - |
| P Olsen | - | - | - | - | - | - | - |
| S Henderson | 16,820 | - | - | 16,820 | - | - | 16,820** |
| M Kochanowski | - | - | - | 69,371*** | - | - | 69,371 |

* Acquired off-market, except for Ross Walker in 2012 year who bought 8,734 shares on market.

** Balance at resignation date

*** Balance at appointment date as Director or KMP

No shares were granted as compensation in 2012 (2011: nil)

# NOTES ON THE FINANCIAL STATEMENTS

## 20. Key Management Personnel Disclosures (Continued)

*(ii) Options*

| Name | Balance 1 July 2010 | Options granted as compensation | Options forfeited and expired | Balance 30 June 2011 | Options granted as compensation | Options forfeited and expired | Balance 30 June 2012 |
|---|---|---|---|---|---|---|---|
| V Gauci | 201,000 | - | (99,000) | 102,000 | - | (102,000) | - |
| A Kinnane | 332,347 | 260,000 | (592,347) | - | - | - | - |
| C Larsen | 240,519 | 168,000 | (37,770) | 370,749 | 150,000 | (202,749) | 318,000 |
| Dr I Runge | - | - | | - | - | - | - |
| D Meldrum | 240,201 | 168,000 | (37,452) | 370,749 | 665,000 | (202,749) | 833,000 |
| R Walker | - | - | | - | - | - | - |
| N Hatherly | - | - | - | - | - | - | - |
| A Brackin | - | - | - | - | - | - | - |
| R Mathews | - | - | - | - | - | - | - |
| | | | | | | | |
| J Sloman | 152,616 | - | (152,616) | - | - | - | - |
| K Lewis | 152,616 | 118,000 | (16,500) | 254,116 | 150,000 | (136,116) | 268,000 |
| K Wallis | - | 118,000 | - | 118,000 | 150,000 | - | 268,000 |
| P Olsen | - | 568,000 | - | 568,000 | - | (568,000) | - |
| S Henderson | 157,704 | 118,000 | (21,588) | 254,116 | - | (254,116) | - |
| M Kochanowski | - | 79,000 | - | 79,000 | 50,000 | - | 129,000 |

No options were vested or exercisable at 30 June 2012 (2011: nil). All remained unvested and un-exercisable (2011: nil).

## (c) Other Transactions with Key Management Personnel

The Group employs the services of Johnston Rorke Chartered Accountants, an entity associated with Ross Walker. Johnston Rorke received $48,660 (2011: $55,830) for taxation and advisory services.

Aggregate amounts of each of the above types of other transactions with key management personnel of Runge Limited:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **Amounts recognised as expense** | | |
| Professional fees | 48,660 | 55,830 |
| | 48,660 | 55,830 |

Amount payable at year end $0 (2011: $0)

## 21. Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the auditors of the Group, and its related entities.

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Audit services - Audit and review of the financial reports: | | |
| Auditor of the parent entity: | | |
| BDO East Coast Partnership (formerly PKF East Coast Practice) | 181,801 | 168,665 |
| Auditors of subsidiaries: | | |
| PKF Malaysia | 5,064 | 3,454 |
| PKF South Africa | 23,215 | 15,577 |
| PKF Hong Kong | 11,324 | - |
| Johan Malonda Mustika & Rekan Indonesia | 9,973 | 16,814 |
| Unistar – Mongolia | 2,963 | 2,841 |
| CWCC Hong Kong | - | 6,045 |
| | 234,340 | 213,396 |
| Non- audit services: | | |
| BDO East Coast Partnership (formerly PKF East Coast Practice) – other services | - | 750 |
| | - | 750 |

# NOTES ON THE FINANCIAL STATEMENTS

## 22. Commitments

### (a) Non-cancellable Operating Leases

The Group leases various offices under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the lease are generally renegotiated. Excess office space is sub-let to third parties also under non-cancellable operating leases.

| **Commitments for minimum lease payments in relation to non-cancellable operating leases are payable:** | **2012 $'000** | **2011 $'000** |
|---|---|---|
| Within one year | 5,512 | 5,296 |
| Later than one year but not later than 5 years | 13,086 | 15,867 |
| Later than 5 years | 2,856 | 2,713 |
| Commitments not recognised in the financial statements | **21,454** | **23,876** |

**Sub-lease payments**

| **Future minimum lease payments to be received in relation to non-cancellable sub-leases of operating leases:** | | |
|---|---|---|
| Within one year | 803 | 97 |
| Later than one year but not later than 5 years | 205 | - |
| Total | 1,008 | 97 |

### (b) Finance Leases

| Commitments in relation to finance leases are payable: | | |
|---|---|---|
| Within one year | 6 | 6 |
| Later than one year but not later than 5 years | 13 | 19 |
| Minimum lease payments | 19 | 25 |
| Less: future finance charges | (1) | (2) |
| Recognised as a liability | 18 | 23 |
| **Representing lease liabilities:** | | |
| Current | 5 | 5 |
| Non-current | 13 | 18 |
| | 18 | 23 |

Finance leases relate to motor vehicles which have residual payments with options to purchase at the end of the lease term.

## 23. Reconciliation of Net Profit to Net Cash Inflow from Operating Activities

Reconciliation of Net Profit to Net Cash Inflow from Operating Activities

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Net profit** | **6,237** | **3,590** |
| Depreciation and amortisation | 5,272 | 4,573 |
| Provision for impairment of receivables | (133) | 183 |
| Net loss on sale of property, plant and equipment | 63 | 77 |
| Impairment of developed software | - | 1,016 |
| Net exchange differences | (32) | 76 |
| Employee share options | 108 | 46 |
| **Change in operating assets and liabilities** | | |
| Decrease / (increase) in trade and other receivables | (2,569) | 125 |
| Decrease / (increase) in current tax asset | (64) | 1,979 |
| Decrease / (increase) in deferred tax asset | (621) | (1,394) |
| Decrease / (increase) in work in progress | (267) | 381 |
| Decrease / (increase) in other assets | 17 | (571) |
| Increase / (decrease) in trade and other payables | 869 | 895 |
| Increase / (decrease) in other liabilities | 997 | (64) |
| Increase / (decrease) in current tax liabilities | 169 | 87 |
| Increase / (decrease) in deferred tax liability | 13 | (115) |
| Increase / (decrease) in provisions | 1,006 | 879 |
| **Net cash inflow from operating activities** | **11,065** | **11,763** |

Non cash financing and investment activities include:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Additions to plant and equipment | 243 | - |
| **Total non cash financing and investment activities** | **243** | **-** |

## 24. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group’s exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk.

The Board of Directors is ultimately responsible for reviewing, ratifying and monitoring systems of internal controls and risk management. The Board has established an Audit and Risk Committee, which is responsible for overseeing risk management systems.

# NOTES ON THE FINANCIAL STATEMENTS

## 24. Financial Risk Management (Continued)

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group's finance division is responsible for development and maintenance of policies which deal with each type of risk related to use of financial instruments.

The Group holds the following financial instruments:

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents * | 12,141 | 9,344 |
| Trade and other receivables * | 23,228 | 20,596 |
| Financial assets | - | 103 |
| | 35,369 | 30,043 |
| **Financial liabilities** | | |
| Trade and other payables ** | 7,397 | 7,685 |
| Borrowings ** | 5,018 | 5,473 |
| | 12,415 | 13,158 |

* Loans and receivables

** At amortised cost

### (a) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or a counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's cash and cash equivalents and its receivables from customers.

Cash and cash equivalents are held in banks or financial institutions with a minimum 'A' external rating by Standard and Poor's or Moody's.

The Group does not require guarantees or collateral of its trade and other receivables. In some foreign regions the Group works on a prepayment basis to avoid credit risk.

The Group has established an allowance for impairment that represents an estimate of incurred losses in respect of trade receivables. This allowance is determined based on the specific information regarding conditions of a particular individual debt. The information regarding the receivables ageing is monitored by both finance and operations management.

The maximum credit risk exposure of financial assets of the Group is represented by the carrying amounts of financial assets set out above. The Group had no significant concentrations of credit risk with any single counterparty or group of counterparties, other than banks or financial institutions.

57% of cash and trade receivables are held with 'A', 'BBB' or 'BB' – rated customers and banks (2011: 54%). The ratings used are set by Standard and Poor's or Moody's as at the end of the financial year. Analysis of the maximum exposure to credit risk for financial assets at balance date by counterparts' credit rating:

| | | |
|---|---|---|
| A - rated counterparts | 18,955 | 14,194 |
| B - rated counterparts | 1,376 | 1,926 |
| Unrated counterparts | 15,038 | 13,923 |
| | **35,369** | **30,043** |

## 24. Financial Risk Management (Continued)

### (b) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation.

The Group regularly reviews cashflow forecasts, maintains sufficient cash on demand and has unutilised borrowing facilities disclosed in note 14.

Contractual maturities of the Group's financial liabilities, including interest thereon, is as follows:

| 2012 | Carrying amount $'000 | Contractual cash flows $'000 | 6 mths or less $'000 | 6-12 mths $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 |
|---|---|---|---|---|---|---|---|
| Secured bank loans | 5,000 | 5,647 | 144 | 144 | 288 | 5,359 | - |
| Finance lease liabilities | 18 | 19 | 3 | 3 | 13 | - | - |
| Trade and other payables | 7,397 | 7,397 | 7,397 | - | - | - | - |
| | **12,415** | **13,063** | **7,544** | **147** | **301** | **5,359** | **-** |
| **2011** | | | | | | | |
| Secured bank loans | 5,450 | 5,606 | 5,199 | 406 | - | - | - |
| Finance lease liabilities | 23 | 26 | 3 | 3 | 6 | 14 | - |
| Trade and other payables | 7,685 | 7,685 | 7,685 | - | - | - | - |
| | **13,158** | **13,317** | **12,887** | **409** | **6** | **14** | **-** |

### (c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group manages its exposure to interest rate and foreign currency fluctuations through a policy approved by the Board of Directors. There are no other significant market risks affecting the Group.

***Currency Risk***

The current policy is not to take any forward positions. At 30 June 2012 and 2011 the Group had not entered into any derivative contracts to hedge these exposures. The Group does not engage in any significant transactions which are speculative in nature.

# NOTES ON THE FINANCIAL STATEMENTS

**24. Financial Risk Management (Continued)**

As a multinational corporation, the Group maintains operations in foreign countries and as a result of these activities, the Group is exposed to changes in exchange rates which affect its results of operations and cash flows.

The Group’s exposure to foreign currency risk at balance date expressed in Australian Dollars was as follows:

| 2012 | USD $’000 | CAD $’000 | ZAR $’000 | Other $’000 | Total $’000 |
|---|---|---|---|---|---|
| Cash and deposits | 5,341 | 719 | 1,102 | 2,401 | 9,563 |
| Trade and other receivables | 8,947 | 414 | 1,705 | 89 | 11,155 |
| Trade and other payables | (1,600) | (410) | (275) | (462) | (2,747) |
| Interest bearing liabilities | - | (18) | - | - | (18) |
| Net balance sheet exposure | 12,688 | 705 | 2,532 | 2,028 | 17,953 |
| **2011** | | | | | |
| Cash and deposits | 4,053 | 626 | 491 | 1,246 | 6,416 |
| Trade and other receivables | 8,284 | 447 | 1,334 | 758 | 10,823 |
| Financial assets | 103 | - | - | - | 103 |
| Trade and other payables | (1,241) | (200) | (113) | (425) | (1,979) |
| Interest bearing liabilities | - | (23) | - | - | (23) |
| Net balance sheet exposure | 11,199 | 850 | 1,712 | 1,579 | 15,340 |

A 10 percent strengthening of the Australian dollar against the above currencies at 30 June 2012 based on assets and liabilities at 30 June 2012 would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

| | Equity | | Profit/ (Loss) | |
|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| | (1,292) | (886) | (733) | (628) |

A 10 percent weakening of the Australian dollar against the above currencies at 30 June 2012 would have had equal but opposite effect on the above currencies to the amounts shown above.

# NOTES ON THE FINANCIAL STATEMENTS

**24. Financial Risk Management (Continued)**

***Interest Rate Risk***

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Should the interest rates increase by 200 basis points the net effect on profit before income tax will decrease by $8,000 (2011: $73,000). If interest rates decrease by 200 basis points, the change will have an equal but opposite effect on the profit before income tax.

As at the reporting date, the Group had the following variable rate cash deposits and borrowings:

| | Weighted average interest rate | | Balance | |
|---|---|---|---|---|
| | **2012 %** | **2011 %** | **2012 $'000** | **2011 $'000** |
| Interest bearing deposits | 3.80 | 7.90 | 4,624 | 1,780 |
| Bank loans | 5.75 | 6.59 | (5,000) | (5,450) |

**(d) Fair Value Estimation**

The carrying amounts of receivables and financial liabilities at amortised cost are assumed to approximate their fair values due to their short-term nature or their terms and conditions including interest receivable or payable at variable rates.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:-

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 24. Financial Risk Management (Continued)

The following tables analyses the Group's financial instruments carried at fair value by the measurement levels set out above:

| 2012 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| Financial assets at fair value through other comprehensive income | - | - | - | - |
| Total assets | - | - | **-** | **-** |
| **2011** | | | | |
| Financial assets at fair value through other comprehensive income | - | - | 103 | 103 |
| Total assets | **-** | **-** | **103** | **103** |

The following tables present the changes in level 3 instruments for the years ended 30 June 2012 and 30 June 2011:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Financial assets** | | |
| Opening balance | 103 | 1,601 |
| Gains/(losses) recognised in other comprehensive income | (103) | (1,498) |
| Gains recognised in profit and loss | - | - |
| Closing balance | **-** | **103** |

## 25. Earnings Per Share

| | 2012 Cents | 2011 Cents |
|---|---|---|
| Basic earnings per share | 5.0 | 2.9 |
| Diluted earnings per share | 5.0 | 2.9 |

### Earnings used in Calculating Earnings Per Share

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Profit attributable to the ordinary equity holders used in calculating earnings per share | 6,237 | 3,590 |

| | 2012 Number '000 | 2011 Number '000 |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 124,080 | 124,080 |
| Dilutive options | 27 | - |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | 124,107 | 124,080 |

Options were not considered to be dilutive in 2011, as the average share price in 2011 was below the exercise price of the options.

# NOTES ON THE FINANCIAL STATEMENTS

## 26. Share Based Payments

**Tax Exempt Share Plan**

The Employee Share Scheme enables the Board to issue up to $1,000 of shares tax free per employee of the Group each year.

There were no shares issued under $1,000 Share Purchase Plan in 2012 or 2011.

Eligibility for the tax exempt share plan is approved by the board having regard to individual circumstances and performance. No directors or key management personnel are eligible for the Tax Exempt Share Plan.

**Employee Share Option Plan (ESOP)**

The Employee Share Option Plan (ESOP) was approved by the Board of Directors on 5 February 2008, amended on the 7 October 2009 and amended on 28 October 2011.

Eligible participants of the ESOP include any person who is employed by, or is a director, officer or executive, of the Group and whom the Board or its nominee determines is eligible to participate in the Option Plan. Options are granted at the discretion of the Board of Directors.

Consideration for granting options, grant periods, vesting and exercise dates and exercise periods are determined by the Board of Directors in each case. Options issued under the plan may not exceed 5% of the total number of the diluted ordinary shares of the Company at the date of issue and carry no dividend or voting rights.

Options are not transferable and lapse following the resignation of employees before vesting date. The terms and conditions of the options are that all options are to be settled by the physical delivery of shares.

The vesting conditions attached to the options are set out in the Remuneration Report (12A) of the Directors' Report.

## 26. Share Based Payments (Continued)

The number and weighted average exercise prices of share options are as follows:

| Grant date | Vesting date | Exercise Price $ | Number beginning of year | Granted | Forfeited | Expired | Exercised | Number at end of year |
|---|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | | |
| *Options granted to management* | | | | | | | | |
| 21/05/2008 | 30/08/2011 | 1.32 | 416,500 | - | (416,500) | - | - | - |
| 12/01/2010 | 1/09/2011 | 0.88 | 748,661 | - | (748,661) | - | - | - |
| 12/01/2010 | 1/09/2012 | 0.88 | 748,655 | - | (748,655) | - | - | - |
| 12/01/2010 | 1/09/2013 | 0.88 | 748,646 | - | (748,646) | - | - | - |
| 14/12/2010 | 31/08/2012 | 0.57 | 807,356 | - | (359,010) | - | - | 448,346 |
| 14/12/2010 | 31/08/2013 | 0.57 | 807,322 | - | (358,995) | - | - | 448,327 |
| 14/12/2010 | 31/08/2014 | 0.57 | 807,322 | - | (358,995) | - | - | 448,327 |
| 30/11/2011 | 1/09/2014 | 0.35 | - | 500,000 | - | - | - | 500,000 |
| 29/05/2012 | 1/09/2014 | 0.40 | - | 2,374,000 | - | - | - | 2,374,000 |
| **Total** | | | **5,084,462** | **2,874,000** | **(3,739,462)** | **-** | **-** | **4,219,000** |
| Weighted average exercise price | | | 0.77 | 0.39 | 0.84 | - | - | 0.45 |
| **2011** | | | | | | | | |
| *Options granted to eligible employees* | | | | | | | | |
| 21/05/2008 | 30/08/2010 | 1.00 | 456,594 | - | (16,082) | (440,512) | - | - |
| *Options granted to management* | | | | | | | | |
| 21/05/2008 | 30/08/2010 | 1.15 | 496,000 | - | (496,000) | - | - | - |
| 21/05/2008 | 30/08/2011 | 1.32 | 508,000 | - | (91,500) | - | - | 416,500 |
| 12/01/2010 | 1/09/2011 | 0.88 | 744,168 | 166,667* | (162,174) | - | - | 748,661 |
| 12/01/2010 | 1/09/2012 | 0.88 | 744,160 | 166,667* | (162,172) | - | - | 748,655 |
| 12/01/2010 | 1/09/2013 | 0.88 | 744,151 | 166,666* | (162,171) | - | - | 748,646 |
| 14/12/2010 | 31/08/2012 | 0.57 | - | 902,357 | (95,001) | - | - | 807,356 |
| 14/12/2010 | 31/08/2013 | 0.57 | - | 902,322 | (95,000) | - | - | 807,322 |
| 14/12/2010 | 31/08/2014 | 0.57 | - | 902,321 | (94,999) | - | - | 807,322 |
| **Total** | | | **3,693,073** | **3,207,000** | **(1,375,099)** | **(440,512)** | **-** | **5,084,462** |
| Weighted average exercise price | | | 0.99 | 0.62 | 0.94 | 1.00 | | 0.77 |

* Sign-on options granted to P. Olsen on 1 August 2010 on the same terms as options issued in January 2010.

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.57 years (2011 – 1.46 years).

The fair values at grant date for non market options (EBITA & EPS vesting conditions) were estimated using a Trinomial Lattice model which defines the conditions under which employees are expected to exercise their options after vesting in terms of the stock price reaching a specified multiple of the exercise price.

## 26. Share Based Payments (Continued)

Fair values at grant date for market options (TSR vesting condition) were estimated using a Monte Carlo simulation and a trinomial tree (Hoadley's Hybrid Employee Share Option model - outperform index).

The model inputs for options granted during the 2012, 2011, 2010 and 2008 financial years included:

| | Options with TSR hurdles | | Options without TSR hurdles | | | |
|---|---|---|---|---|---|---|
| | Aug 2010 | Dec 2010 | May 2012 | Nov 2012 | Aug 2010 | Dec 2010 |
| *Fair value of share options at grant date:* | | | | | | |
| Options granted 21/05/2008 | - | - | - | - | - | - |
| Options vesting 1/09/2011 | $0.0790 | - | - | - | $0.094 | - |
| Options vesting 1/09/2012 | $0.0790 | - | - | - | $0.097 | - |
| Options vesting 1/09/2013 | $0.0780 | - | - | - | $0.097 | - |
| Options vesting 31/08/2012 | - | $0.196 | - | - | - | $0.242 |
| Options vesting 31/08/2013 | - | $0.193 | - | - | - | $0.246 |
| Options vesting 31/08/2014 | - | $0.193 | - | - | - | $0.240 |
| Options vesting 1/09/2014 | - | - | - | $0.119 | - | - |
| Options vesting 1/09/2014 | - | - | $0.118 | - | - | - |
| *Assumptions:* | | | | | | |
| Share price | $0.415 | $0.57 | $0.38 | $0.40 | $0.415 | $0.57 |
| Exercise price | $0.88 | $0.57 | $0.35 | $0.40 | $0.88 | $0.57 |
| Expected volatility (weighted average volatility) | 70% | 70% | 50% | 50% | 70% | 70% |
| Option weighted average life | 3.2 years | 3.8 years | 2.7 years | 2.2 years | 3.2 years | 3.8 years |
| Expected dividends | 5% | 5% | 6% | 6% | 5% | 5% |
| Risk-free interest rate (based on government bonds) | 4.60% | 5.31% | 3.26% | 2.60% | 4.60% | 5.31% |

The expected price volatility is based on the historic volatility compared to that of similar listed companies and the remaining life of the options. This has been adjusted to take into consideration the recent extreme market movements using a mean reversion tendency of volatilities (the concept of volatility returning to normal levels after going to an extreme).

| **Employee Expenses** | **Consolidated** | |
|---|---|---|
| **Share-based payment expense recognised during the financial year** | **2012 $'000** | **2011 $'000** |
| Options issued under employee option plan | 108 | 46 |
| Shares issued under employee share scheme | - | - |
| | **108** | **46** |

# NOTES ON THE FINANCIAL STATEMENTS

**27. Parent Entity Disclosures**

As at and throughout the financial year ending 30 June 2012 the parent entity of the Group was Runge Limited.

**Summary financial information**

The individual financial statements for the parent entity show the following aggregation:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Profit/(loss) | 4,204 | 1,692 |
| Total comprehensive income | 4,204 | 1,692 |
| **Financial position** | | |
| Current assets | 28,485 | 28,917 |
| Total assets | 73,138 | 74,927 |
| Current liabilities | 22,403 | 25,139 |
| Total liabilities | 30,976 | 34,606 |
| Net assets | 42,162 | 40,321 |
| Issued capital | 39,418 | 39,408 |
| Reserves | 144 | 36 |
| Retained profits | 2,600 | 877 |
| Total Shareholders' equity | 42,162 | 40,321 |
| Contingent liabilities | - | - |
| Contractual commitments for the acquisition or property, plant or equipment | - | - |

The parent entity has provided guarantees to third parties in relation to the performance and obligations of controlled entities in respect of banking facilities, approved deeds and property lease rentals. The guarantees are for the terms of the facilities, deeds and leases. The periods covered by the guarantees range from one to four years.

No deficiency of net assets existed in the controlled entities covered by guarantees at 30 June 2012 or 30 June 2011. No liability was recognised by the parent entity in relation to these guarantees, as the fair value of the guarantee is immaterial.

**28. Events occurring after the reporting period**

No matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

d) The Group's operations in future financial years; or

e) The results of those operations in future financial years; or

f) The Group's state of affairs in future financial years.

**29. Contingent liabilities and contingent assets**

There are no contingent liabilities or contingent assets that require disclosure in the financial report.

# DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 (a) to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date;
- the remuneration disclosures included in pages 20 to 28 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2012, comply with section 300A of the *Corporations Act 2001;* and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors

Allan Brackin,
Chairman

Brisbane

Dated this 28th day of August 2012

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Australia

## INDEPENDENT AUDITOR'S REPORT

To the members of Runge Limited

## Report on the Financial Report

We have audited the accompanying financial report of Runge Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Runge Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

**Opinion**

In our opinion:

(a) the financial report of Runge Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 28 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Opinion**

In our opinion, the Remuneration Report of Runge Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO

**BDO East Coast Partnership**

**A S Loots**
Partner

Brisbane, 28 August 2012

# CORPORATE GOVERNANCE STATEMENT

The Board and management believe that it is crucial to the Company's economic, social and ethical objectives that it meet the highest standards of governance and business conduct across its operations in Australia and internationally.

The key aspects of the Group's corporate governance framework are outlined in this section. The Company's policies meet the requirements of both the *Corporations Act 2001* and the Listing Rules of the Australian Stock Exchange (ASX) and, in the opinion of the Board, comply with best practice including the ASX Principles, except where noted.

## **PRINCIPLE 1:** – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board is committed to protecting the interests of the shareholders and other stakeholders of the Company, promoting and maintaining good corporate governance structures while managing risk, acting effectively, honestly and fairly and acting in accordance with all applicable laws. The Board is responsible for setting the strategic direction of the Group; Group executives are responsible for day-to-day management of the operations of the Group within the strategic framework that the Board sets.

As set out in more detail in the Board Charter, the key functions reserved to the Board are to:

a) oversee the Company, including its control and accountability systems.

b) oversee the business and strategic direction of the Company in order to maximise performance and generate appropriate levels of shareholder return.

c) appoint, evaluate and remove the Chairman, the Managing Director, any other Executive Director, the Company Secretary, and where appropriate, senior executives.

d) review, ratify and monitor systems of internal controls, risk management, codes of conduct and legal compliance.

e) provide input into and final approval of management's development of corporate strategy and performance objectives.

f) review the performance and implementation of corporate strategies by senior management and ensure that senior management have the necessary resources to do so.

g) approve and monitor progress of major capital expenditure, capital management, acquisitions and divestments.

h) approve and monitor annual budgets and strategic plans.

i) approve and monitor financial and other reporting made to shareholders and the ASX under the continuous disclosure regime.

The Board Charter can be found on the Company's website, at: http://www.runge.com/investor-relations/corporate-governance.

The Board delegates specific responsibilities to various Board Committees. The Board has established the following Committees:

- An Audit and Risk Committee, which is among other things responsible for overseeing the external and internal auditing functions of the Company's activities;
- An Human Resources and Remuneration Committee, which is responsible for making recommendations to the Board on remuneration packages for executives, senior managers, Non-executive Directors and overseeing the Human Resources policies of the Company;

- A Nominations Committee, which is responsible for making recommendations to the Board on the composition of the Board and appointment and evaluation of the Managing Director; and
- An Intellectual Property and Technology Committee, which is responsible for assisting and advising the Board on matters relating to the Company's Intellectual Property and software and related Technology-based assets.

The Charter of each of the above listed Committees can be found on the Company's website, at:
http://www.runge.com/investor-relations/corporate-governance

The performance of the Group's Managing Director and senior executives has been assessed for the 2012 financial year in accordance with the process adopted by the Board. The process is as set out below.

In relation to the performance of the Managing Director, he presented an annual self-assessment to the Chairman of the Board. The assessment for the 2012 financial year was in accordance with the performance criteria set out in the Managing Director's employment contract and included the following factors: evolution and execution of strategy, meeting operational and financial targets, Board communications and relations, recruitment and retention of staff and other factors. The Chairman presented the assessment to the Board for its comment.

The Managing Director has assessed for the 2012 financial year the performance of all key executives mentioned in the Directors' report. Both qualitative and quantitative measures were used consistent with KPIs set by the Managing Director in consultation with the key executives. The Managing Director reported to the Human Resources and Remuneration Committee the performance of these key executives. The Human Resources and Remuneration Committee then approved changes to remuneration and to the establishment of new KPIs for the 2013 financial year.

## **PRINCIPLE 2:** STRUCTURE THE BOARD TO ADD VALUE

The names of the Directors of the Company in office at the date of this report, specifying which are independent, are set out below. The Chairman of the Board is independent, and the Chairman and the Managing Director are different persons.

The Board is committed to ensuring that there will be at least five Directors of whom a majority will be Non-executive Directors and as far as possible, at least two will be independent Directors.

A Director is regarded as independent if that Director is a Non-executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. When determining the independent status of a Director, the Board has considered whether the Director:

a) is a substantial shareholder of the Company or an officer of, or otherwise associated directly with a substantial shareholder of the Company;

b) within the last three years has been employed or has previously been employed in an executive capacity by the Company or another group member;

c) within the last three years has been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;

d) is a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;

e) has a material contractual relationship with the Company or another Group member other than as a Director of the Company.

**Current Board Composition**

| Voting Director | Board membership | Date of appointment |
|---|---|---|
| D Meldrum | Managing Director | July 2011 |
| C Larsen | Executive | January 1996 |
| A Brackin | Independent Chairman | November 2011 |
| R Mathews | Independent | February 2012 |
| Dr I Runge | Non-executive | December 1986 |
| R Walker | Independent | March 2007 |

The Board has determined, on an individual by individual basis, that each of the three Voting Directors designated as independent Directors above satisfy all of the above criteria. In addition, the Board comprises a Non-executive Director and two Executive Directors.

The Board presently does not comprise a majority of independent Directors, but the Board believes that the current individuals on the Board are able to make quality and independent judgements in the best interests of the Company on all relevant issues. The Company may consider appointing an additional independent Director if and when the scale of its operations justifies such an appointment and an appropriate candidate becomes available. The criteria used to assess independence are reviewed from time to time.

The Non-executive Directors understand the benefits of conferring regularly without management present, and do so.

The Board is also committed to ensuring that all Directors, whether independent or not, bring an independent judgment to bear on Board decisions. To facilitate this, the Board has agreed on a procedure for Directors to have access, in appropriate circumstances, to independent professional advice at the Company's expense.

The Board is committed to ensuring that its members have a broad range of skills, experience and expertise. This will assist the Board to maximise performance and ensure appropriate levels of shareholder return.

The Board has, in accordance with ASX Recommendation 2.4 and as stated above, established a Nominations Committee. The primary purpose of the Nominations Committee is to assist the Board to discharge its responsibilities with regard to the following areas:

- overseeing the composition of the Board and competencies of Board members;
- providing recommendations of appointment and evaluation of the Managing Director;
- ensuring that appropriate procedures exist to assess the performance levels of the Chairman, Non-executive Directors, Executive Directors; and
- developing succession plans for the Board and overseeing development by management of succession planning for senior executives.

The Nominations Committee Charter can be found on the Company's website, at:
http://www.runge.com/docs/charters-and-policies/nominations-committee-charter.pdf

The Charter requires that a majority of members of the Nominations Committee must, as far as possible, be independent Non-executive Directors. The Chairman of the Nominations Committee is an independent Director. The current members of the Nominations Committee are the entire Board, so the Committee is not comprised of a majority of independent Directors. The Board is of the view that the entire Board brings the appropriate mix of skills and experience to satisfy the responsibilities under the Committee's Charter.

# CORPORATE GOVERNANCE STATEMENT

The skills, experience and length of appointment relevant to each Director is set out in the Directors' Report, section "Information on Current Directors and Company Secretary".

The names of each of the Directors considered to be independent and the materiality thresholds are set out in this Statement under Principle 2. The relevant transactions with independent Directors, namely Ross Walker are set out in note 20(c) of the financial statements. The Board considers that the transactions involving Ross Walker are not material.

There is a procedure for Directors to take independent advice.

A record of all Board and Committee meetings held and the attendance of each Director at those meetings is set out in section 10 of the Directors' Report.

It is the responsibility of the Board and its Committees to review their performance (group and individually) annually to ensure that they are operating effectively and in the best interests of the Company.

The Board notes the comments made at the 2011 Annual General Meeting that a performance review of the Board and its Committees was not held during the 2011 financial year. Subsequent to the Annual General Meeting a new Chairman and Independent Director have been appointed. A performance review of the Board and its Committees was not conducted during 2012 financial year as the Board has been focussed on refining the company's strategy and its full year financial performance. A performance review of the Board and its Committees for the 2012 financial year has now been conducted.

No changes to independence status occurred during the financial year.

The Company Secretary monitors whether Board policy and procedures are being followed, and co-ordinates timely completion and despatch of Board agenda and briefing material.

## **PRINCIPLE 3**: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

The Board fully supports a strong commitment to ethical and responsible decision-making, and in this regard the Company has established a Code of Conduct Policy setting out the standards of ethics and conduct to which all Group Directors, executives and employees must adhere whilst conducting their duties. The Code of Conduct Policy can be found on the Company's website, at:
http://www.runge.com/docs/charters-and-policies/code_of_conduct.pdf

The Code of Conduct Policy, among other things, requires the Directors, executives and employees of the Group to:

a) act with high standards of honesty, integrity, fairness and equity in all aspects of their employment;

b) comply fully with the content and spirit of all laws and regulations which govern its operations, its business environment and its employment practices;

c) not directly or indirectly offer, pay, solicit or accept bribes, secret commissions or other similar payments or benefits in the course of conducting business;

d) not divulge any information about the Company without appropriate authorisation;

e) not participate in insider trading by using knowledge not generally available to the market to gain unfair advantage in the buying or selling of the Company's securities;

f) not knowingly participate in any illegal or unethical activity; and

g) not enter into any arrangement or participate in any activity that would conflict with the interests of the Company or prejudice the performance of professional duties.

The Managing Director ensures that all employees are made aware of all procedures and policies and takes any necessary reporting steps. All new employees are provided with a copy of the Code of Conduct Policy during induction.

The Company is committed to ensuring that employees may raise concerns regarding illegal conduct or unethical behaviour and will support employees who report violations in good faith. All reports received will be thoroughly investigated and any necessary action taken.

Internal audits will be undertaken to ensure compliance.

The Board tasked the Human Resources and Remuneration Committee with the development of the Company's Diversity Policy to be established in accordance with the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (2nd Addition).

The Human Resources and Remuneration Committee established a working committee to review the Company's previously existing diversity policies and procedures throughout its 21 offices in 12 countries and report back to the Committee with recommendations as to the appropriate diversity model for the Company to adopt across its global operations.

The Diversity Working Committee provided its recommendations to the Board in March 2012, which recommendations were accepted. The Human Resources and Remuneration Committee in turn recommended the Diversity Policy to the Board, which adopted the Diversity Policy on 29 May 2012. The Policy can be found on the Company's website, at:
http://www.runge.com/docs/charters-and-policies/diversity-policy-(adopted-29-may-12).pdf

The Diversity Policy reflects the Company's commitment to a diverse workforce that recognises and embraces the value that different people can bring to an organisation. The Company promotes a diverse workplace by aiming to ensure that all employees and applicants for employment are fairly considered according to their skills, qualifications and abilities.

The Policy sets out the roles and responsibilities of the Board, the Human Resources and Remuneration Committee, and the Company's employees in relation to workplace diversity. The initiatives which have been adopted by the Company to assist with improving gender diversity are also set out within the Policy. The Company's measurable objective is to have 35% of women across the whole organisation by June 2013, subject to the overriding objective that all appointments will be made on the basis of merit.

As at 30 June 2012, 32% of the companies' employees were women. There were no women in senior executive or board positions.

The Company has established a Securities Trading Policy in respect of trading in Company shares by the Group's Directors, executives and employees. The Policy can be found on the Company's website, at:

http://www.runge.com/docs/charters-and-policies/securities-trading-policy.pdf

The Securities Trading Policy provides that all Group officers, employees and Directors are prohibited from dealing in any Company securities, except while not in possession of unpublished price sensitive information. It is also contrary to the Policy for Directors, executives and employees to engage in short term trading of the Company's securities. Directors and other officers may only deal in the Company's securities during specified periods, between 24 hours and 45 days after the release of the Company's results, or Annual General Meeting, or while the Company has a disclosure document on issue ("Trading Window"). Directors and other officers are prohibited from trading in securities, except in exceptional circumstances, in the period between the close of books and the release of half year or full year financial results and at other times when the company is aware of, or has under consideration, a market sensitive matter ("Blackout Period"). Directors and other officers must obtain the approval of a Clearance Committee prior to dealing in the Company's securities except during a

Trading Window. A copy of the Company's securities trading Policy has been lodged with the Australian Securities Exchange.

**PRINCIPLE 4:** SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board has established an Audit and Risk Committee. The Committee consists of two Non-executive Directors, one of whom is independent, and the Chief Financial Officer. The Committee Chair is not the Chairman of the Board. The current composition of the Audit and Risk Committee is:

| | |
|---|---|
| Mr Ross Walker | Committee Chair (Non-executive and independent) |
| Dr Ian Runge | Member (Non-executive) |
| Mr Michael Kochanowski | Chief Financial Officer |

Each Director has an appropriate knowledge of the Company's affairs and has the financial and business expertise to enable the Committee to discharge its mandate effectively. The qualifications of each member of the Audit and Risk Committee are set out on page 18.

The Audit and Risk Committee's formal Charter, which complies with ASX Principles, can be found on the Company's website, at: http://www.runge.com/docs/charters-and-policies/audit_-risk_committee_charter_adopted_14-12-11.pdf.

The primary purpose of the Audit and Risk Committee is to assist the Board to discharge its responsibilities with regard to:

- monitoring and reviewing the effectiveness of the control environment in the Group in the areas of operational and balance sheet risk, legal/regulatory compliance and financial reporting; and
- providing an independent and objective review of financial and other information prepared by management, in particular that to be provided to members and/or filed with regulators.

Further, the Audit and Risk Committee leads the review of the performance of the external auditors, and sets the procedures for both the selection and appointment of external auditors and the rotation of external audit engagement partners.

The members of the Committee have direct access to employees, external auditors and financial and legal advisers without management present. The Committee meets as often as required. Attendance at Audit and Risk Committee meetings is set out in the Directors' Report. The Audit and Risk Committee met four times during the reporting period. The Audit and Risk Committee keeps minutes of its meetings and includes them for the next full Board Meeting.

The Company does not publish on its website the procedures for the selection and appointment of external auditors, and for the rotation of external audit engagement partners. The Company has had no need to formalise these procedures at this stage although it recognises the need to develop such procedures.

**PRINCIPLE 5:** MAKE TIMELY AND BALANCED DISCLOSURE

The Board supports continuous disclosure consistent with ASX Principles. The Company's Board approved a Continuous Disclosure Policy and Market Disclosure Guidelines which are designed to ensure that:

- shareholders have equal and timely access to material information concerning the Company; and
- Company announcements are clear, concise, factual and balanced.

A copy of the Continuous Disclosure Policy and market Disclosure Guidelines can be found on the Company's website, at: http://www.runge.com/docs/charters-and-policies/continuous-disclosure-policy-market-disclosure-guidelines.pdf.

# CORPORATE GOVERNANCE STATEMENT

The Board has overall responsibility for ensuring compliance with the Continuous Disclosure Policy and Market Disclosure Guidelines. The Board has established a Disclosure Committee, consisting of the Chairman, the Managing Director, the Company Secretary and the Global Communications Manager, to assist the Board in ensuring compliance with the Continuous Disclosure Policy and Market Disclosure Guidelines. The Disclosure Committee in turn appoints reporting officers, and those officers are required to:

- immediately disclosure any material information which may need to be disclosed under Listing Rule 3.1; and
- ensure awareness of and compliance with the Continuous Disclosure Policy and Market Disclosure Guidelines.

**PRINCIPLE 6:** RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholder communication is conducted in accordance with the Company's Continuous Disclosure Policy and the Company's Shareholder Communications Policy. Both policies can be found on the Company's website, at: http://www.runge.com/docs/charters-and-policies/shareholder-communications-policy.pdf

Releases made to the ASX are posted on the Company's website. The Company's website also contains general information regarding the Company and its activities, notices of future meetings, announcements, half yearly and annual reports and the Chairman's Annual General Meeting addresses since listing.

Shareholders are encouraged to attend and actively participate at General Meetings. The Company's Directors and the Chairmen of all Committees plus senior management will be present at each Annual General Meeting to answer shareholder questions. The Company's auditor is also present at each Annual General Meeting to answer any shareholder questions.

**PRINCIPLE 7:** RECOGNISE AND MANAGE RISK

The Board understands the importance of establishing a sound system of risk oversight and management and internal control. The Board has adopted an Enterprise Risk Management Policy and Manual ("ERM Policy") reflecting the Group's risk profile, describing the elements of the Group's risk management and internal control system and setting out the steps to be taken to manage the Group's material business risks. The ERM Policy was prepared and based on the principles of International Standard ISO 31000: 2009 Risk Management – Principles and Guidelines. The ERM Policy was rolled out to all offices globally during the past year by the Group General Counsel.

The ERM Policy sets out the Company's commitment to manage risks on an enterprise-wide basis in accordance with ISO 31000:2009 Risk Management - Principles and Guidelines, by:

- involving all stakeholders, including the Board, management, employees, contractors and shareholders;
- complying with all applicable regulatory obligations in each country in which the Group conducts business;
- maintaining an up-to-date risk register to identify, prioritise and manage the material risks facing the Group;
- preparing risk management improvement plans, with management accountability and responsibility;
- incorporating enterprise risk management into the Company's strategic planning and decision making processes;
- conducting regular enterprise risk management training and risk control reviews to deliver continuous risk improvement; and

- developing and maintaining up-to-date business continuity plans.

The ERM Policy requires management to maintain the Group's current risk management systems and internal controls, and to continuously improve those systems and controls as required in order to manage the Group's material business risks.

The ERM Policy requires the Group General Counsel (in conjunction with the Audit and Risk Committee) to prepare an annual report for the Board that confirms whether:

- the Group's risk management systems effectively identify all areas of material risk for the Group;
- management has designed and implemented effective systems and controls to manage identified areas of material risk;
- audits have been undertaken to confirm the effectiveness of and compliance with the Group's risk management systems and controls;
- in respect of identified areas of ineffectiveness or non-compliance, remedial measures have been taken or are being taken to address the identified issues; and
- all major risks have mitigation plans in place.

The ERM Policy further requires the Group General Counsel to table for consideration at each Board meeting each risk identified in the ERM Policy as "extreme" and "high."

The Group General Counsel provides a written monthly Risk Management Report to the Board concerning the effectiveness of the company's management of its material business risks.

The Board has received declarations from the Managing Director and the CFO pursuant to s295A of the *Corporations Act* which state that the financial statements are founded on sound risk management and internal controls and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Company has established an Audit and Risk Committee in accordance with the ASX Principles and sets out a summary of the Policy/s under this principle. A copy of the Audit and Risk Committee Charter can be found on the Company's website, at:
http://www.runge.com/docs/charters-and-policies/audit_-risk_committee_charter_adopted_14-12-11.pdf

The Company does not have an internal audit function. The Directors have assessed a need to establish an internal audit function this year and believe that sufficient internal control mechanisms currently exist in the Company.

### PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Company has established a Human Resources and Remuneration Committee ("HR and Remuneration Committee") to assist the Board in establishing appropriate remuneration levels for the Group's employees. The Committee is comprised of four Directors, three of whom are independent, and the Executive General Manager of Talent and Organisational Development. The Chairman of the Committee is an independent Director. The current composition of the Committee is as follows:

- Mr Richard Mathews Committee Chairman (independent)
- Mr Allan Brackin Board Chairman (independent)
- Mr David Meldrum Managing Director (appointed July 2011)
- Mr Ross Walker Director (independent)

- Executive General Manager – Talent & Organisational Development

The HR and Remuneration Committee, among other things:

- assists the Board in setting remuneration, recruitment, retention, development and termination policies for senior executives;
- recommends to the Board remuneration packages for Executive Directors;
- recommends to the Board a remuneration framework for Directors and all employees in the Group; and
- recommends to the Board appropriate superannuation arrangements.

The Company clearly distinguishes the structure of Non-executive Director remuneration from that of Executive Directors and senior executives. Non-executive Directors are paid a set fee as agreed by the Board annually, and do not receive performance based fees or retirement benefits. The remuneration of Non-executive Directors is not more than the aggregate fixed sum determined by the Company's shareholders in a general meeting.

The remuneration structure for Executive Directors and senior executives is balanced between fixed salary and incentive schemes that are designed to align as closely as possible with the Company's short term and long term objectives.

The Remuneration Report provides a detailed disclosure of Non-executive Directors, Executive Directors and senior Executives in accordance with reporting obligations.

The Directors' Report sets out the number of meetings of the HR and Remuneration Committee and attendance at those meetings.

There is not any scheme for retirement benefits, other than superannuation, for Non-executive Directors.

A copy of the HR and Remuneration Committee Charter can be found on the Company's website at:
http://www.runge.com/docs/charters-and-policies/human-resources-and-remuneration-committee-charter-(adopted-31-07-12).pdf

# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 1 August 2012.

**A. Distribution of Equity Securities**

Analysis of number of equity security holders by size of holding:

| | Ordinary Shares | Options |
|---|---|---|
| 1 – 1,000 | 93 | - |
| 1,001 – 5,000 | 349 | - |
| 5,001 – 10,000 | 224 | 5 |
| 10,001 – 100,000 | 425 | 36 |
| 100,001 – and over | 122 | 10 |
| | **1,213** | 51 |

The number of shareholdings held in less than marketable parcels of 1,389 shares is 119.

**B. Equity Security Holders**

*Twenty largest quoted security holders*

The names of the twenty largest holders of quoted equity securities are listed below:

| Name | Number held | Percentage of issued shares |
|---|---|---|
| Runge International Pty Ltd atf Runge Family A/C | 15,810,389 | 12.74 |
| Mrs P Kinnane | 8,734,983 | 7.04 |
| Citicorp Nominees Pty Limited < Cwlth Bank Off Super A/C> | 6,220,961 | 5.01 |
| MHB Holdings Pty Ltd | 6,084,945 | 4.90 |
| Mr David Meldrum | 3,877,811 | 3.13 |
| National Nominees Limited | 3,677,973 | 2.96 |
| Mr Ian Desmond Perks | 3,317,650 | 2.67 |
| Mrs Debra Larsen | 3,240,546 | 2.61 |
| UBS Wealth Management Australia Nominees Pty Ltd | 2,676,148 | 2.16 |
| Mr S J Baldwin and Mrs A M Baldwin <Steve Baldwin S/Fund A/C> | 2,642,511 | 2.13 |
| Microequities Asset Management Pty Ltd <Microequities Nanocap 3 A/C> | 2,538,091 | 2.05 |
| Mr Keith McArley | 2,483,497 | 2.00 |
| Anajam Pty Ltd | 1,815,099 | 1.46 |
| ACN 065903335 Pty Ltd | 1,589,567 | 1.28 |
| Mrs Tracy Anne Rowlands | 1,495,889 | 1.21 |
| Mr John Francis Buffington | 1,406,674 | 1.13 |
| Equitas Nominees Pty Limited <2874398 A/C> | 1,197,346 | 0.96 |
| Mrs Andre Joan Phillips | 1,173,508 | 0.95 |
| Mrs Donna Margaret Luxton | 1,173,001 | 0.95 |
| Perpetual Trustee Company Limited | 1,103,471 | 0.89 |
| | **72,260,060** | **58.23** |

*Unquoted equity securities*

4,219,000 options over unissued shares: for further details see note 27.

# SHAREHOLDER INFORMATION

**C. Substantial Holders**

The names of the substantial shareholders listed in the holding register are:

| | Number held | Percentage |
|---|---|---|
| Runge International Pty Ltd atf Runge Family A/C | 16,283,211 | 13.12 |
| Mrs P Kinnane | 9,621,169 | 7.75 |

**D. Voting Rights**

Refer to note 17 for voting rights attached to ordinary shares.

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