



## NOTICE OF ANNUAL GENERAL MEETING

RUNGE LIMITED

ACN 010 672 321

**runge**

Notice is given that the Annual General Meeting of Runge Limited (the Company) will be held at Runge Limited, Level 13, 333 Ann Street, Brisbane, Queensland, Australia commencing at 10.00 am (Eastern Standard Time) on Wednesday, 18 November 2009.

### AGENDA

#### 1. Discussion of Financial Statements and Reports

To receive and consider the financial statements and the reports of the Directors and the Auditor for the year ended 30 June 2009.

#### 2. Resolution 1: Adoption of Remuneration Report

To consider and, if thought appropriate, pass the following resolution as a non-binding ordinary resolution under section 250R(2) of the *Corporations Act 2001*:

*“That the Remuneration Report for the year ended 30 June 2009 be and is hereby adopted”.*

#### 3. Resolution 2: Increase to the Remuneration Pool for Non-executive Directors

To consider and, if thought fit, to pass, with or without amendment the following resolution as an ordinary resolution:

*“That for the purpose of ASX Listing Rule 10.17, Rule 6.3(a) of the Company’s Constitution and for all other purposes the total amount of remuneration payable to Non-executive Directors be increased to \$500,000.”*

##### **Voting Exclusion**

*The Company will disregard any votes cast on this Resolution 2 by a Director of the Company or any associate of a Director of the Company. The Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the meeting as a proxy for the person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.*

#### 4. Resolution 3: Re-election of Ian Runge

*“That Ian Runge, who retires by rotation in accordance with rule 6.1 of the Constitution, be and is hereby re-elected as a Director.”*

#### 5. Resolution 4: Approval of Grant of Options to Managing Director

To consider and, if thought fit, to pass, with or without amendment the following resolution as an ordinary resolution:

*‘That for the purposes of Listing Rule 10.14 and for all other purposes, the Members approve:*

- the grant to Mr Tony Kinnane of 260,587 options to subscribe for unissued shares in the Company on the terms and conditions described in the Explanatory Memorandum accompanying this Notice of Meeting; and*

- *the issue and allotment of Shares to Mr Kinnane on the exercise of the options in accordance with their terms and conditions of grant.'*

**Voting Exclusion**

*The Company will disregard any votes cast on this resolution by any director of the Company and any of their associates. However, the Company will not disregard a vote if it is cast by a person as the proxy for a person who is entitled to vote, in accordance with directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with directions on the proxy form to vote as the proxy decides.*

**6. Resolution 5: Approval of grant of options to Executive Director**

To consider and, if thought fit, to pass, with or without amendment the following resolution as an ordinary resolution:

*'That for the purposes of Listing Rule 10.14 and for all other purposes, the Members approve:*

- *the grant to Mr Christian Larsen of 168,749 options to subscribe for unissued shares in the Company on the terms and conditions described in the Explanatory Memorandum accompanying this Notice of Meeting; and*
- *the issue and allotment of Shares to Mr Larsen on the exercise of the options in accordance with their terms and conditions of grant.'*

**Voting Exclusion**

*The Company will disregard any votes cast on this resolution by any director of the Company and any of their associates. However, the Company will not disregard a vote if it is cast by a person as the proxy for a person who is entitled to vote, in accordance with directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with directions on the proxy form to vote as the proxy decides.*

**Dated: 16 October 2009**

**By order of the Board**



**Joint Company Secretaries  
Ken Lewis / Julia Sloman**

## ATTENDANCE AND VOTING

1. In accordance with applicable law, the Directors have determined that the shareholding of each member for the purposes of ascertaining their voting entitlements at the Annual General Meeting will be as it appears in the share register at 7.00pm Sydney time on Monday 16 November 2009. Accordingly, those persons are entitled to attend and vote at the meeting. If you are eligible, you may vote by attending the meeting in person or by proxy or attorney. A member who is a body corporate may appoint a representative to attend and vote on its behalf.
2. To vote by proxy, please complete, sign and return the enclosed proxy form in accordance with the following instructions. If you require an additional proxy form, the Company will supply it on request.
3. A member who is entitled to vote at the meeting, may appoint one proxy if the member is only entitled to one vote or one or two proxies if the member is entitled to more than one vote. A proxy need not be a member of the Company.
4. Where the member appoints 2 proxies, the appointment must specify the proportion or number of votes that each proxy may exercise (unless the authority of one is conditional on the other failing to attend and vote). Failure to specify the proportion of votes that each represents will invalidate the proxies.
5. The proxy form must be signed by the member or the member's attorney. Proxies given by a corporation must be executed in accordance with the *Corporations Act* and the constitution of that corporation. Proxies given by joint holders must either be signed by each joint holder or the holder named first in the register.
6. To be effective, the proxy form and the original power of attorney or other authority (if any) under which it is signed or a certified copy must be received by the Company at least 48 hours before the time for holding of such meeting or any adjourned meeting (or such lesser period as the Directors may permit):-
  - 6.1 by delivery or mail to the Company's share registry: Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne, Victoria 3001;
  - 6.2 by delivery or mail to the Company's registered office at Level 12, 333 Ann Street, Brisbane, Queensland, 4000;
  - 6.3 by facsimile to the following fax number at the Company's registered office: +61 2 93326300; or
  - 6.4 by facsimile to the following fax number at the Company's share registry: (within Australia) 1800 783 447 and (outside Australia) +61 3 9473 2555.
7. Any proxy form received after this deadline including at the meeting will be treated as invalid.
8. A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Constitution to vote or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with the direction. If a proxy is not directed how to vote on an item of business, the proxy may vote as he or she thinks fit.
9. If a member appoints the chairman of the meeting as the member's proxy and does not specify how the chairman is to vote on an item of business, the chairman will vote, as proxy for that member, in favour of that item on a poll.



## **EXPLANATORY MEMORANDUM**

This Explanatory Memorandum has been prepared to assist members with their consideration of the resolutions to be put to the Annual General Meeting to be held on 18 November 2009. These explanatory notes should be read with, and form part of, the accompanying Notice of Annual General Meeting.

### **1. FINANCIAL STATEMENTS AND REPORTS**

As required by law, the financial report, Directors' report and Auditor's report are laid before the AGM. Members will be given a reasonable opportunity at the meeting to ask questions and make comments on these reports. There is no requirement however for members to approve the reports.

### **2. RESOLUTION 1 – REMUNERATION REPORT**

The Remuneration Report is set out in section 12 of the Directors' Report contained in the Annual Report.

By law, the Company is required to put the Remuneration Report to a vote by members at the Annual General Meeting. By law, the vote on the resolution is advisory only and does not bind the Directors or the Company.

While there is no legal requirement to abstain from voting, the Board believes it appropriate that none of the Directors, the named executives or their associates should vote on the remuneration resolution, except as directed by any proxies.

**The Directors unanimously recommend that you vote in favour of this resolution.**

### **3. RESOLUTION 2 – INCREASE TO THE REMUNERATION POOL FOR NON-EXECUTIVE DIRECTORS**

The Directors are currently looking for opportunities to strengthen the Board with an extra director who possesses the appropriate mix of skills and experience.

The current Non-executive Director fee pool is \$400,000. The resolution proposes to increase this pool by an amount of \$100,000 to a total of \$500,000.

At present the Company has four Non-executive Directors and only \$24,983 of the current fee pool is unallocated.

Approval of this resolution by the members of the Company will provide the flexibility and freedom to appoint a new director if the right person becomes available.

**The Executive Directors (Tony Kinnane and Christian Larsen) recommend that you vote in favour of this resolution. The Non-Executive Directors make no recommendation as they may have a personal interest in the outcome of the resolution.**

### **4. RESOLUTION 3 – RE-ELECTION OF DIRECTOR**

In accordance with rule 6.1(f), (g) and (i) of the Constitution and the *Corporations Act*, Mr Ian Runge retires as Director by rotation and, being eligible, offers himself for re-election.

Ian Runge has served as a Director of your Company from 1986 to 2009. He was last re-elected as a Director on 28 November 2007.

Ian Runge founded the Runge Limited group in 1977 after working in the mining industry in central Queensland, Europe and USA. He transitioned from full-time operational

involvement in 1992, but has continued to make significant contributions to the company and to the 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 the world-recognised 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 MA and PhD in Economics from George Mason University (Virginia, USA).

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

**The Directors (other than Mr Runge who has a material personal interest in the outcome of this resolution) recommend that you vote in favour of this resolution.**

## **5. RESOLUTIONS 4 and 5 – APPROVAL OF OPTIONS TO EXECUTIVE DIRECTORS**

### **Remuneration policy**

The performance of the Company depends upon the quality of its executives and Executive Directors. Their compensation structure is designed to strike an appropriate balance between fixed and variable remuneration, rewarding capability and experience and providing recognition for contribution to the Company’s overall goals and objectives.

In deciding the remuneration and incentives of the Managing Director (Mr Kinnane) and Executive Director (Mr Larsen), the Board considers that there should be an appropriate mix of remuneration comprising cash and securities to link their remuneration to the financial performance of the Company.

Equity-based incentives consistent with the Company’s remuneration policy better aligns the performance of the Executive Directors with the Company’s financial performance. The Board also believes that an equity-based remuneration component helps it to attract and retain the best executives.

The Directors consider the remuneration policy to be a sensible and well-balanced policy which allows them to adjust the remuneration mix appropriately to the Company’s changing circumstances.

### **Background - 2009 Executive Option Program**

The Company adopted an executive share option plan in February 2008 which was disclosed in its IPO prospectus. The plan is open to all eligible employees who are invited to participate by the Board. An eligible employee includes any person employed by or is a director, officer or executive of the Company or a related body corporate. Accordingly, each of the directors, Messrs Gauci, Kinnane, Larsen, Hatherly, Runge and Walker are entitled to participate.

In accordance with its remuneration policy, as part of the remuneration packages of a number of senior managers and emerging leaders, the Board has approved an executive option program under which a total of 2,481,600 options (representing approximately 2% of the current share capital of the company) will be granted to approximately 28 executives (including the Executive Directors (Messrs Kinnane and Larsen)). The Board’s approval to grant these options to the senior managers and emerging leaders is subject to the approval of Resolutions 4 and 5.

## Listing Rule requirements

Listing Rule 10.14 provides that a listed company must not permit a director to acquire securities under an employee incentive scheme without shareholder approval. Accordingly, shareholder approval is sought under Listing Rule 10.14 for the participation of the Executive Directors (Messrs Kinnane and Larsen) in the option program. This is the first time since listing that a grant of options under the executive share option plan has required shareholder approval under the Listing Rules.

## Proposed Grant of Options to Executive Directors

The Board proposes, subject to member approval, to grant 260,587 options to Mr Kinnane and 168,749 options to Mr Larsen to acquire unissued shares in the Company.

Mr Larsen's options will be granted under the Share Option Plan and Mr Kinnane's options will be granted on similar terms. No amount is payable on grant of the options and no loans are required or will be provided in relation to the grant of options.

## Exercise price

Each option will have an exercise price of the volume weighted average price of shares traded on the ASX in the 5 trading days ending on 16 November 2009.

## Expiry and lapse

Unless otherwise resolved by the Board, each Option will lapse on the earliest of:

- 5.00pm (Brisbane time) on 30 September 2013;
- If the Executive Director ceases to be an employee prior to the vesting of the options;
- If the Executive Director has in the opinion of the Board been dismissed with cause or has committed an act for fraud, defalcation or gross misconduct in relation to the affairs of the Company or any related body corporate and the Board directs that the options be forfeited.

## Vesting conditions

The options will be issued in a single tranche but cannot be exercised until they have vested and a holding period has expired.

The Vesting Conditions are that specified earning per share ("EPS") growth targets, EBITA margin targets and the total shareholder return ("TSR") measure are satisfied as set out below.

EPS Vesting Condition		EBITA Vesting Condition		TSR Vesting Condition	
EPS average annual growth from FY 2009 to FY 2011 above average annual Australian CPI increase in the corresponding period	% of Options which vest if vesting condition satisfied	2011 EBITA margin	% of Options which vest if vesting condition satisfied	TSR growth above peer comparison group of 18 ASX listed companies	% of Options which vest if vesting condition satisfied
Less than 4%	0%	Less than 15%	0%	Less than 50th percentile	0%

4% or more, but less than 8%	20% plus an additional 5% for each 1% increment	15% or more but less than 20%	20% plus an additional 4% for each 1% increment	50th percentile or higher but lower than 75th percentile	10% plus, from 51st to 75th percentile, 0.4% for every 1 percentile
8% or more	40%	20% or more	40%	75th percentile or higher	20%

One third of the total number of vested Options become exercisable at any time on or after 1 September 2011.

One third of the total number of vested Options are become exercisable at any time on or after 1 September 2012.

One third of the total number of vested Options are become exercisable at any time on or after 1 September 2013.

Vested options, regardless of when they vest, must be exercised by no later than 5.00pm (Brisbane time) on 30 September 2013.

## **Discussion and analysis of the proposed grant of options**

### ***Cost to the Company***

The options will not be quoted on ASX and accordingly have no readily identifiable market value.

However, for illustrative purposes, the options have been valued for accounting purposes by the Directors using the principles set out in AASB 2 'Share-Based Payment' and the Binomial Valuation Methodology at \$0.33 each. This Methodology is a function of the relationship between a number of variables principally being the share price, the option exercise price, the time to expiry and estimated expected life, the risk-free interest rate and the volatility of the Company's underlying share price.

The application of the Methodology therefore requires a number of inputs, some of which must be assumed. The material assumptions used in the Methodology were:

- The valuation date of the options is 6 October 2009;
- A share price of \$0.83 on 6 October 2009;
- The exercise price of each option is \$0.83;
- The first exercise date is 1 September 2011 and the expiry date is 30 September 2013;
- A risk-free interest rate of 5.03%;
- A volatility factor of 65%. This measure was determined having regard to the historical volatility of the Company's share price since listing; and
- A dividend yield of 5%.

Shareholders should be aware that this is an indicative valuation only for illustrative purposes. The actual accounting expense may be different due to differences in the final inputs such as the date of grant, which, subject to approval, is expected to be on or about 18 November 2009.

## **Remuneration**

The remuneration packages of the Executive Directors for the year ended 30 June 2009 (as detailed in the Remuneration Report included in the Directors' Report of the 2009 financial statements) comprises:

<b>Executive</b>	<b>Cash salary and fees</b>	<b>STI cash bonus</b>	<b>Non-monetary benefits</b>	<b>Super-annuation</b>	<b>Termination benefits</b>	<b>Share-based payment (2008 options)</b>	<b>Total</b>
Mr Kinnane	\$362,749	Nil	\$6,423	\$100,000	Nil	\$9,969	\$479,141
Mr Larsen	\$328,518	Nil	Nil	\$13,745	Nil	\$9,971	\$352,234

## **Relevant interests in shares and options**

The Executive Directors' current relevant interest in shares and options in the Company are as follows:

<b>Executive</b>	<b>Shares</b>	<b>Options</b>
Mr Kinnane	10,081,171	109,521
Mr Larsen	4,636,568	109,521

## **Impact on capital structure**

Until exercised, the grant of the options will not impact on the number of ordinary shares on issue in the Company. If all of the proposed options issued to Messrs Kinnane and Larsen vested and were exercised, an additional 429,334 fully paid ordinary shares would be issued representing approximately 0.34% of the total expanded issued share capital of the Company (this percentage assumes that no other options were exercised or shares issued by the Company between the date the options were granted and the date on which those options were exercised).

## **Opportunity cost to the Company**

The opportunity cost and benefits foregone to the Company in granting the options comprise:

- the obligation of the Company to issue shares on exercise of the options at the exercise price even though this might be less than the market price of the shares at the time of the exercise of the option; and
- the potential dilutionary impact on the existing shareholders of the Company in the event of the issue of shares on exercise of the options – see the impact on the capital structure described above. The Directors consider that any potential dilutionary impact is not material and is more than offset by the advantages accruing to the Company from the services of the Executive Directors.

## **Tax consequences**

As far as the Company is aware, there are no adverse taxation consequences to the Company arising from the proposed issue of options.

***Use of funds***

Any funds raised from the exercise of the options will be applied towards the working capital and cash requirements of the Company at the time of exercise of the options.

***Timing of grant***

If the proposed resolution is passed, the Company will grant the options to the Executive Directors immediately and in any event no later than 1 month after the date the resolution is passed.

**Recommendation**

**The Directors (with Messrs Kinnane and Larsen abstaining) unanimously recommend that you vote in favour of this resolution.**