

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MAY 2011

The Directors present their report together with the financial report of Alesco Corporation Limited (the "Company" or "Alesco") and of the Group, being the Company and its subsidiaries for the year ended 31 May 2011 and the auditor's report thereon.

### DIRECTORS

The Directors of the Company during or since the end of the financial year were:

Mark Bernard Luby	Robert Victor McKinnon
Peter John Boyd	Ernest John Pope
Robert Murray Aitken	Jennifer Anne Tait <sup>1</sup>
James William Hall	Neil Alexander Thompson

1. Appointed on 3 August 2010.

Details of the current Directors' qualifications, age, experience and responsibilities are set out in the Annual Report and can be found on the Alesco website at [www.alesco.com.au](http://www.alesco.com.au). Details of committee membership and the attendance at Board and committee meetings are set out in the table below.

### COMPANY SECRETARY

The Company Secretary during the financial year was Luci Rafferty, BA LLB (Hons) ACIS. Luci Rafferty was appointed General Counsel and Company Secretary on 23 August 2003. She holds an arts law degree and is a graduate of Chartered Secretaries Australia and has almost 20 years' legal and company secretarial experience.

### DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are set out in the table below.

DIRECTOR	BOARD		AUDIT & COMPLIANCE COMMITTEE		HUMAN RESOURCES COMMITTEE		SAFETY, HEALTH & ENVIRONMENT COMMITTEE		NOMINATIONS COMMITTEE	
	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS ELIGIBLE TO ATTEND (* HELD)	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS TO ATTEND (* HELD)	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS TO ATTEND (* HELD)	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS TO ATTEND (* HELD)	NO. OF MEETINGS ATTENDED	NO. OF MEETINGS TO ATTEND (* HELD)
	<b>Current</b>									
MB Luby	15	15	7	7	5	5	–	–	2	2
PJ Boyd	15	15	–	–	–	–	–	–	–	–
NA Thompson	15	15	–	–	–	–	–	–	–	–
RM Aitken	15	15	–	–	5	5	3	3	2	2
JW Hall	15	15	7	7	–	–	–	–	2	2
RV McKinnon	15	15	7	7	–	–	–	–	2	2
EJ Pope	14	15	–	–	4	5	3	3	2	2
JA Tait <sup>1</sup>	13	13	–	–	3	3	3	3	1	1

1. Appointed Non-Executive Director on 3 August 2010 and elected Non-Executive Director by shareholders at the 2010 annual general meeting.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2011

### Corporate Governance Statement

The Board of Directors of Alesco is responsible for the corporate governance of the Company and its controlled entities (the **Alesco Group**) and to ensure that the Alesco Group is directed and managed appropriately. In this regard, the Board is committed to ensuring accountability and that control systems are commensurate with the risks involved to enable Alesco to create value and optimise its performance.

This statement summarises the corporate governance practices and policies in place at Alesco during the financial year ended 31 May 2011 in relation to the ASX Corporate Governance Principles. For ease of reference, this statement has been prepared and presented in a format consistent with the ASX publication. Alesco complied with these Principles in all substantial respects in the 2011 financial year.

In summary, changes to, and developments in, Alesco's corporate governance practices and policies during the reporting period are as follows:

- The Board reviewed its governance framework against the amendments to the ASX Listing Rules and Principles and updated its framework and recommended modifications and enhancements in some instances. In particular, Alesco:
  - established a Diversity and Equal Opportunity Policy which outlines its commitment to building a diverse workforce, and places a particular focus on improving the level of gender diversity at senior levels of the organisation, including the Board; and
  - lodged a copy of its share trading policy with the ASX in December 2010.
- The Board participated in an external Board performance review and individual peer appraisal facilitated by Baker & Baptist Pty Ltd, an independent consultant.

Summaries of the key corporate governance practices and policies referred to in this report can be found on Alesco's website at [www.alesco.com.au](http://www.alesco.com.au) under "Corporate Governance".

The Board recognises that in a changing world these practices and policies should be reviewed from time to time to ensure they continue to reflect local and international developments and to assist Alesco in optimising its corporate performance and accountability.

### ASX PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

#### Role of the Board

The Board has an established Board charter, which formalises its role and its relationship with management. The primary role of the Board is the protection and enhancement of long-term shareholder value. Its responsibilities include the overall strategic direction of the Alesco Group, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with ASX Principle 1.

The Board has delegated certain responsibilities to senior executives including the day-to-day operation and administration of the Company.

The Company has in place an induction program for its Directors and senior executives to assist them to understand the Company's financial position, strategies, operations and policies and their respective rights, duties and responsibilities.

#### Performance of senior executives

The Company has in place a formal process for evaluating the performance of senior executives. The Managing Director reviews the performance of senior executives at least annually. Performance is measured against a performance framework agreed at the start of the financial year and includes targeted key result areas which can be measured objectively. The evaluation process assesses each key executive against corporate, divisional and individual goals as well as range of other objectives including desired behaviours and performance matters.

The Managing Director reports to the Human Resources Committee on the performance of senior executives. The Committee reviews performance and considers this report and assesses the actual performance of the Group and the relevant segment and individual's performance overall and against the key result areas set at the beginning of the financial year. The Board adopts the same process to measure the performance of the Managing Director.

A performance evaluation for senior executives, including the Managing Director has taken place during the year in accordance with this process.

## DIRECTORS' REPORT (CONTINUED)

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### ASX PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

#### Board structure

The Board presently has eight Directors, six Non-Executive Directors, including the Chairman and two Executive Directors, the Managing Director and Finance Director. Jennifer Anne Tait was appointed a Non-Executive Director of the Company on 3 August 2010.

Each Director brings a diverse range of skills and background to the Board. The qualifications, skills, experience and expertise of the Directors are set out in more detail in the Annual Report. The period of office held by each Director, the committee membership and details of is as follows.

NAME	DATE OF APPOINTMENT	COMMITTEE MEMBERSHIP	TERM IN OFFICE	RETIRING AT 2011 AGM <sup>1</sup>	NEXT RETIREMENT DATE	INDEPENDENT <sup>1</sup>
MB Luby (Chairman)	18 December 2007	Nominations and Audit & Compliance	4 years	Yes	2011	Yes
RM Aitken	10 March 2003	Human Resources, Nominations and Safety, Health & Environment	8 years	No	2012	Yes
JW Hall	1 July 2005	Audit & Compliance and Nominations	6 years	No	2013	Yes
RV McKinnon	1 July 2008	Audit & Compliance and Nominations	3 years	Yes	2011	Yes
EJ Pope	1 December 2004	Human Resources, Nominations and Safety, Health & Environment	7 years	No	2013	Yes
JA Tait	3 August 2010	Human Resources, Nominations and Safety, Health & Environment	1 year	n/a	n/a	Yes
PJ Boyd (Managing Director)	3 May 2010	n/a	2 years	n/a	n/a	No <sup>2</sup>
NA Thompson (Finance Director)	31 January 2007	n/a	5 years	No	2013	No <sup>2</sup>

1. Retiring by rotation in accordance with the constitution and the ASX Listing Rules.

2. By virtue of being an executive officer.

The composition of the Board is determined using the following principles:

- there should be at least five Directors, with a broad range of expertise;
- the Chairman is to be an independent Non-Executive Director;
- there must be a majority of Non-Executive Directors, with at least half the Board being independent Non-Executive Directors;
- there must be enough Directors to serve on various committees without overburdening the Directors or making it difficult for them to fully discharge their responsibilities;
- at a minimum, Directors (other than the Managing Director) must face re-election every three years;

- the roles of Chairman and Chief Executive Officer should not be exercised by the same individual. In addition, a former Chief Executive Officer should not be appointed Chairman; and
- the size and composition should be conducive to allowing the Board to make appropriate decisions and that decision-making is not hindered.

To assist in its duties the Board has established four Committees: Audit & Compliance Committee, Human Resources Committee, Nominations Committee and the Safety Health & Environment Committee. The membership of these Committees is determined to ensure that the workload for each Director is balanced in order for the Directors to fully discharge their responsibilities. The current membership of these Committees is noted in the table above.

## DIRECTORS' REPORT (CONTINUED)

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### Director independence

The Board supports the principle that a majority of the Alesco Board should be independent and that each Director should bring an independent judgment to bear in decision making.

In judging whether a Director is independent for the purposes of serving on the Board and any Board Committees, the Board has regard to the principle outlined in ASX Principle 2. In summary, an independent Director is independent of management and free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment. Alesco has adopted AASB standard 1031 *Materiality* to determine levels of materiality when assessing independence.

All Non-Executives Directors of Alesco are considered by the Board to be independent.

To enable the Board to assess the independence of each Director, each Director is required to provide all relevant information to Alesco on a regular basis. Details of Director related entity transactions with the consolidated entity are set out in Note 31 of the Annual Report. There are no Director related party transactions in place in relation to Alesco and its Directors.

### Conflicts of interest

Each Director is required to act in the interests of Alesco as a whole and, at no time, allow any of the Director's own interests to prevail over those of the members generally. If a matter is being considered in which a Director has a material personal interest, that Director must declare his or her interest and must not be present when the matter is being considered or vote on the matter, unless all of the other Directors have passed a resolution to enable that Director to do so or the matter comes within exceptions permitted by law.

### Nomination and appointment of new Directors

From time to time, the Board assesses the skill, knowledge, diversity and experience currently represented on the Board and the requirements of the Group and will determine areas, if any, not adequately represented.

The Board has a selection process which it adopts when searching for and selecting new Directors to

the Board. As part of the process, a Board skills matrix is developed to identify any 'gaps' in the skills and experience of the Directors on the Board.

The Nominations Committee is responsible for overseeing the selection process for new Directors and recommending candidates to the Board. It is also responsible for overseeing succession and induction processes for Non-Executive Directors. The Committee comprises the Chairman and the Non-Executive Directors.

It is the Board's normal practice to involve external consultants to assist in the nomination process. The Board is responsible for the appointment of a suitable candidate as recommended by the Committee.

With the impending retirement of three of the Company's six Non-Executive Directors over the next two years the Board recently engaged an external consultancy firm to assist in the succession and refreshing of the Board. The timing of any appointments will occur to ensure the appropriate transfer of corporate knowledge and experience during this transition of Directors. In making any appointments the Board is looking for a mix and balance of skills and diversity in its Directors, including, among other things, technical and industry knowledge, finance and accounting, strategy and sustainability, marketing, human capital and information technology.

One Non-Executive Director appointment was made during the reporting period with the appointment of Jennifer Tait on 3 August 2010.

All Directors have confirmed that they are able to meet the Company's expectations and workload associated with being a Non-Executive Director for the next 12 months.

### Meetings of Directors

The Board meets on a regular scheduled basis and on other occasions as required. Meetings may be held at divisional locations to allow visits to the various operational sites and for other purposes. Meetings may be held in absence of senior management as deemed necessary and appropriate and, for these purposes, Non-Executive Directors will meet prior to the Board meeting without the presence of Executive Directors and other senior management.

## **DIRECTORS' REPORT (CONTINUED)**

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To assist it in its decision making, the Board or individual Directors may seek independent professional advice at the expense of Alesco, subject to prior consultation with the Chairman.

### **Retirement and election of Directors**

The Constitution requires each Director (other than the Managing Director) to retire at the third annual general meeting after their appointment or after three years, whichever is longer. Retiring Directors are eligible for re-election (subject to their term of service). In addition, any new Director appointed by the Board is required to seek election at the next general meeting of the Company following their appointment.

In order to ensure a periodical refreshing of membership and to avoid the potential for loss of objectivity over time, Non-Executive Directors are expected to serve approximately three terms, which would ordinarily amount to a period of nine years. Thereafter, Non-Executive Directors would be expected to retire at the next appropriate general meeting and to not seek re-election unless requested by the Board to do so.

Mark Luby and Robert (Bob) McKinnon will each stand for re-election at the 2011 annual general meeting. The Board supports the re-election of both Directors.

Induction procedures including site visits and meetings with management are in place to allow Board appointees to participate fully and actively in Board decision making at the earliest opportunity.

Site visits are arranged from time to time and as required to allow Directors to visit operational sites and meet with divisional management teams.

All Directors have access to the resources of the Company Secretary. The Board is consulted regarding the appointment and removal of the Company Secretary.

### **Board performance**

Alesco has in place processes designed to fairly review and actively encourage enhanced Board and management effectiveness. The Chairman has the responsibility to review continually the performance of each Director and the Board as a whole. During the year, the Chairman held discussions individually with Directors to facilitate Board, individual and peer review.

From time to time and, as considered appropriate, the Chairman will seek external assistance and advice to undertake these performance reviews. These reviews consider not only the individual Directors' performance but also the performance of the Board and its Committees.

This year the Board commissioned a Board performance review facilitated by an external and independent consultant, Baker & Baptist Pty Ltd. This review involved individual appraisals and peer reviews and included individual interviews and the use of a questionnaire covering a broad range of topics grouped under the different skills and attributes deemed important for the effective performance of the role of Non-Executive Director. The purpose of the questionnaire process for directors is to obtain more comprehensive and structured feedback and to assist in evaluating the dynamics of the Board as a whole.

The purpose of this externally facilitated review is to check on the effectiveness of the Board and Board Committee function and processes, consider, among other things, the performance of the Board benchmarked against the ASX Corporate Governance Guidelines as well as individual Director performance. A written report was presented to the Board at the conclusion of the review and issues for discussion and recommended actions were discussed individually with each Director as well as at subsequent Board meetings. The results of the review have led to the development of an action plan to optimise the Board's role, its relationship with management, structures and processes underpinning quality decision making and the provision of effective oversight and governance. The Chairman will monitor the action plan over the next 12 months and take appropriate steps to address the recommendations.

### **ASX PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

In line with ASX Principle 3, the Board has established, among others, a Code of Conduct, Diversity Policy, Share Trading Policy and Whistleblowing Policy. These policies were reviewed and updated as appropriate during the reporting period and can be downloaded from the Company website at [www.alesco.com.au](http://www.alesco.com.au).

## DIRECTORS' REPORT (CONTINUED)

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### Code of conduct

The purpose of the Code of Conduct is to guide all employees and Directors as to:

- the practices necessary to maintain confidence in Alesco's honesty and integrity; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The overriding principle is that all business affairs of Alesco must be conducted legally, ethically and with strict observance of the highest standards of propriety and business ethics. If there are any doubts as to how to respond to a particular circumstance, Directors and employees are encouraged to consult with the Chairman or Company Secretary and, if necessary, seek external professional advice.

The Company has a whistleblowing program in place for all of its employees. This program enables employees to report in good faith a breach or suspected breach of the law or Company policy, including the Code of Conduct or a work-related event which involves questionable, dishonest or fraudulent activity.

### Share trading policy

A share trading policy is in place and imposes trading restrictions on all Directors, officers and employees of Alesco in possession of 'inside information'. A copy of this policy was lodged with the ASX in December 2010.

In summary:

- Additional trading restrictions are imposed on designated officers, including Directors, senior executives in each division and employees based in corporate head office for the period from 90 days prior to the release of Alesco's full-year and half-year results until two days after the results have been released to the market.
- In order to trade, Directors and other designated officers must seek the approval from the Chairman of the Board or the Managing Director prior to any dealing and must confirm in writing that they do not hold any inside information. Any approvals to trade are for a limited period and will lapse immediately if the designated officer comes in possession of inside information.
- Designated officers are prohibited from entering into transactions which may operate to limit the

economic risks of invested entitlements under any of the Company's long-term incentive plans.

Directors are required to comply with the requirements of the ASX Listing Rules and their letter of appointment and promptly advise Alesco of any dealing in Alesco shares to allow Alesco to make the necessary disclosures to the ASX.

All of the current Directors hold shares in Alesco, the details of which are set out on page 30.

### Diversity

The Company has established a Diversity and Equal Opportunity Policy which outlines its commitment to building a diverse workforce, and places a particular focus on improving the level of gender diversity at senior levels of the organisation. In support of this business priority, Alesco's Board has established measurable objectives in relation to diversity which include:

- achieving an increase in the representation of women in executive and senior manager roles, and the Board;
- ensuring recruitment and selection practices enable the availability of a diverse candidate pool for appointments at senior levels;
- ensuring remuneration practices are free from gender bias.

During the period Alesco engaged senior leaders in discussions about its gender diversity commitments, seeking to better understand and address the business and industry challenges the Company faces in meeting these commitments.

During FY12, Alesco:

- will implement newly agreed recruitment and selection guidelines designed to improve business outcomes, and to enhance the gender diversity of candidates for roles across the group, particularly at senior levels.
- will deploy a group-wide remuneration framework to enable improved identification and management of any gender-based remuneration equity issues which may exist, and allowing for future reporting of the relative participation of men and women at different remuneration bands.
- will work with female employees at mid-manager level to understand and agree development actions with that will enable improved

## **DIRECTORS' REPORT (CONTINUED)**

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candidature for senior level appointments in the future.

The Human Resources Committee is required to review progress in delivering the desired improvements in this area on an annual basis.

At present, more than 25% of Alesco's workforce is female. At the conclusion of the reporting year, one of Alesco's six Non-Executive Directors is female and 18% of Australian-based employees in executive or professional roles within three reporting levels of the CEO are female.

### **ASX PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

ASX Principle 4 requires Alesco to "have a structure to independently verify and safeguard the integrity of the Company's financial reporting". The Board believes its practices are in accordance with this principle.

Each division within Alesco reports monthly to the Board on its financial performance and other key business-related matters. Consistent with ASX Principle 4, each half-year following extensive consultation with the divisional management teams, the Managing Director and Finance Director provide written assurance to the Board as to the veracity of the financial conditions and operational results of the Alesco group and that they are in accordance with relevant accounting standards and the law.

#### **Audit and compliance committee**

To assist in the execution of its responsibilities, the Board has established an Audit & Compliance Committee. The structure of this Committee, its membership and its responsibilities reflect the requirements of ASX Principle 4. As part of its responsibilities, the Committee reviews the integrity of the Company's financial reporting, and recommends to the Board and shareholders the appointment of an external auditor, approves audit fees and ensures the independence of the external auditor. The responsibilities of the Committee are set out in its Charter, which is available on the Alesco website.

All members of the Committee are independent Non-Executive Directors. Membership of this Committee is noted in the table on page 22. Jim Hall has been Chairman of this Committee since 23 September 2005. Directors of the Board who are

not members of the Committee are provided with copies of the Committee papers and entitled to attend Committee meetings. Alesco's auditors (internal and external), members of the senior executive team and other third parties are invited to attend the Committee meetings at the discretion and invitation of the Committee. The Committee may meet with the auditors (both internal and external) without management's presence when required or thought appropriate. The Committee also has the right of access to management to seek explanations and additional information as considered necessary to discharge its duties.

During the year the Committee met on seven occasions. Four of the meetings were held to coincide with the review of the half-year and full-year results. The other meetings focused, among other things, on internal audit, insurance, compliance and risk affecting the Group.

#### **Auditor and independence**

The Company's external auditors are KPMG. The Committee regularly assesses any non-audit services being performed by KPMG to ensure that the services are not of a kind that might impair the impartial judgment of the external auditor and that circumstances do not arise of actual or perceived loss of objectivity or independence. The Board, on the recommendation of the Committee, is satisfied that KPMG is independent.

Management is required to seek the prior consent of the Committee if it wishes to use KPMG for material projects in non-audit areas (other than taxation compliance services). During the year KPMG was used to provide advice on share plan accounting, and relevant aspects arising from the sale of the Water Products & Services division and other assurance services. Alesco also used other service providers for non-audit services such as valuations and other accounting advice.

To ensure KPMG's independence, it is a requirement of Alesco that an independence declaration is made by KPMG each half-year and ensures that the signing partner on the audit does not perform this role for more than five full-year audits. Mr Phillip Napier is the lead audit partner for KPMG in relation to the audit of the Company and commenced in this role for the financial year ended 31 May 2007. Mr Napier will retire as lead audit partner after the conclusion

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of the Company's 2011 annual general meeting and will be replaced by another audit partner with KPMG.

### **ASX PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE**

Consistent with ASX Principle 5, the Board aims to ensure that all investors have equal and timely access to material information concerning the Company, that there is compliance with continuous disclosure requirements and that announcements made by the Company are factual and presented in a clear and balanced way.

The Company has adopted a Market Disclosure Policy reflecting the principles set out in ASX Principle 5. This policy can be found on the Alesco website.

### **ASX PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS**

Alesco has adopted a number of different practices designed to promote effective communication with shareholders as recommended by ASX Principle 6. These practices include placing on the Alesco website relevant information, including ASX announcements, annual and half-year reports, copies of notices of meetings, analyst briefings and presentations given by the Company. Annual and half-year reports are distributed to those shareholders who have specifically requested to receive these documents. These documents are also posted on the Alesco website for access. Alesco also uses audio recordings to give stakeholders access to any material presentations such as general meetings and key analyst briefings and webcasts its general meetings. These recordings are also made available through our website for a period of time. For those shareholders who have so elected, emails are used to update shareholders on key announcements.

A representative from the external auditors of Alesco attends the annual general meeting and any other meeting as required by the Board and is available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report. Consistent with our usual practice, a representative from the external auditor attended last year's annual general meeting and has been asked to attend this year's annual general meeting in September 2011.

### **ASX PRINCIPLE 7 – RECOGNISE AND MANAGE RISK**

ASX Principle 7 recommends that a Company "establish policies for the oversight and management of material business risks."

There are a number of material business risk factors that could potentially impact upon the future operating and financial performance of Alesco. These risks are both specific to Alesco and also relate to the general business and economic climate which are beyond the control of Alesco.

The Alesco Group is committed to minimising uncertainty in achieving the Company's objectives through an effective and efficient risk management framework. Calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value. The Alesco Group's approach is to embed risk management in the everyday practices and business processes so that it is relevant, effective and efficient. In doing so, Alesco has in place limits and a range of policies and procedures to oversee and manage the risk in its activities. Some of the risk management controls in place across the business include:

- limits and delegated authorities for approval of capital expenditure and investments, entry into contracts and supply arrangements, purchasing, recruitment and expenses;
- policies and procedures for the management of financial risk and treasury operations, including exposures to foreign currency and movements in interest rates;
- annual budgeting and monthly reporting systems for all businesses, which include reporting on compliance and risk activities being conducted at the businesses;
- a formal process to prepare strategic plans for each business; and
- extensive questionnaires covering operational and financial risks completed by management in connection with the year end and the half-year financial reporting process.

These controls are periodically reviewed by the Board. To assist with this process, the Safety Health & Environment Committee is responsible for overseeing and reviewing the safety, health and environment framework and policies of Alesco. In addition to its financial reporting obligations, the

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Audit & Compliance Committee is tasked with the responsibility for overseeing and reviewing the overarching risk management framework and policies of Alesco in detail. Both these Committees report to the Board on a regular basis.

As part of this framework:

- the Audit & Compliance Committee receives periodic reports in relation to the group's financial reporting, internal control structure and risk management systems from its internal auditors, senior management and external consultants and the adequacy of the group's insurance program;
- the Safety, Health & Environment Committee reviews and reports to the Board on the performance and management of the Company's safety, health and environment program;
- the Human Resources Committee review and reports to the Board on succession planning and the Group's overall remuneration framework; and
- the senior management team manages and reports to the Board on a monthly basis on the business, operational and financial risks and overall compliance performance.

The following approach was taken to managing the Group's material business risks during the reporting period:

- a top level risk management and compliance framework for the Group was implemented within each division and divisional management have identified material business risks, developed divisional risk registers and reviewed the division's internal control and risk management systems to mitigate these risks;
- a monthly process for reporting to the Managing Director and Finance Director material risks identified in the business and how these risks are being mitigated or controlled was introduced;
- the Managing Director reports on risk management issues formally to the Board on a bi-annual basis. These reports coincide with the annual budget and strategic planning sessions where budgets and strategic plans are developed against an agreed risk profile.

As part of this process, clear delineation of responsibilities were agreed with the Managing Director responsible for the overall leadership in management risks, including prioritising material business risks, monitoring these risks and ensuring the risk management framework in implemented

across the divisions. Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system to manage each division's material business risks. Management reports to the Audit & Compliance and Safety, Health & Environment Committees on a regular basis on how those risks are being managed effectively.

### Internal audit

Alesco has an established internal audit function. The internal audit function is independent of the external audit function and has direct access to the Chairman of the Audit & Compliance Committee. This Committee oversees the scope of the internal audit function and has access to the internal auditor without the presence of management. The scope of the internal audit function includes examining and evaluating the Group's internal control systems, compliance systems, financial reporting processes and the quality of performance in carrying out assigned responsibilities. The scope of work is based on an agreed plan which is prepared by the internal audit function in consultation with management and approved by the Audit & Compliance Committee.

### Financial reporting

Alesco requires the Managing Director and Finance Director to confirm in writing that, to the best of their knowledge:

- the Company's financial report presents a true and fair view of the Company's financial condition and operating results and is in accordance with applicable accounting standards;
- the Company's financial records for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*; and
- the integrity of the financial records and systems is founded on a sound system of risk management and internal compliance and control which operates effectively in all material respects.

This assurance is provided following consultation with the divisional management teams as appropriate through detailed internal control questionnaires relating to financial and other reporting on a six-monthly basis. The questionnaires are reviewed by corporate, internal audit and Alesco's external auditors as part of its half-year and full-year reporting process. It is noted that the assurances provided by management can only be reasonable

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rather than absolute and take into account such factors as the need for judgment and interpretation, the use of testing on a sample basis, the inherent limitations in internal control. The questionnaires are not designed to detect all weaknesses in control procedures and often identify areas of improvement which are then taken into consideration in the future planning for the businesses.

### **ASX PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY**

The Board oversees Alesco's remuneration framework and arrangements, including executive remuneration and the remuneration of Non-Executive Directors.

The Human Resources Committee assists the Board in relation to remuneration and human resources matters affecting the Alesco Group. The structure of this Committee and its responsibilities reflect the requirements of ASX Principle 8.

Directors of the Board who are not members of the Committee receive copies of the Committee's papers and are entitled to attend Committee meetings. In addition, the Managing Director, Company Secretary and Group General Manager Human Resources as well as other senior executives, as appropriate, are invited to the meetings at the discretion of the Committee. The Committee also has the right of access to management to seek explanations and additional information as considered necessary to discharge its duties.

The Charter setting out the responsibilities of the Committee has been adopted and a summary of this Charter is posted on the Alesco website.

This Committee is responsible for ensuring that the recruitment and remuneration policies and practices of Alesco are consistent with its strategic goals and human resources and diversity objectives and are designed to enhance corporate and individual performance as well as meet the appropriate recruitment and succession planning needs.

To do this the Committee, among other things, is responsible for reviewing and monitoring executive performance, remuneration and incentive policies and the manner in which they should operate, the introduction and operation of share plans, executive succession planning and development programs to ensure that they are appropriate to the Group's needs and the remuneration framework for Directors (as approved by shareholders).

The Committee may consult with remuneration advisers to Alesco to assist in its role. During the year Egan & Associates have provided specialist

remuneration advice on relevant matters and were paid fees of \$1,733.

Details of the Directors' and key senior executives' remuneration and the approach taken by the Board this year are set out in the Remuneration Report.

### **Principal activities**

The principal activities of the Group during the course of the financial year were the sourcing, manufacturing and distribution of leading industrial brands to the building and renovations, construction and mining and water management sectors.

During the period the Company sold the Water Products & Services division and the Marathon Tyres business which was part of the Construction & Mining division (which has now been renamed Construction Products & Equipment division).

### **Operating and financial review and likely developments**

The consolidated income statement shows a consolidated net profit attributable to members of \$13,573,000 compared with a net loss of \$124,301,000 in 2010.

The Chairman's Report and the Managing Director's Report review the operations of the Group and give an indication of likely developments and the expected results of the operations.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

### **Events subsequent to balance date**

Subsequent to balance date, the Group settled an outstanding dispute with a vendor in connection with the acquisition of part of the Total Eden McCracken's business in 2007. A provision and an equity reserve raised at the time of acquisition were fully utilised to cover the amount paid.

In addition, as a consequence of amendments to the *Corporations Act 2001* in 2010 impacting on the payment and franking of dividends, the Commissioner of Taxation has informally expressed a preliminary view that where a company's net assets are less than its share capital and the company debits a dividend to an account such as accumulated losses, a dividend will be sourced indirectly from share capital and will be unfrankable. Further details are set out on the following page under the heading 'Dividends'.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2011

### Dividends

	CENTS PER SHARE	TOTAL AMOUNT \$000	DATE OF PAYMENT	FRANKED/ UNFRANKED
Determined and paid during the year				
Final 2010 ordinary	nil	nil	n/a	n/a
Interim 2011 ordinary	1.5	1,413	4 March 2011	Franked
Total amount	1.5	1,413		
Determined after end of year				
Final 2011 ordinary	7.0	6,593	6 September 2011	Franked
Special	5.5	5,181	6 September 2011	Franked
Total amount	14.0	13,187		

Dividends paid or determined by the Company to members since the end of the previous financial year are set out in the table above. The financial effect of the dividends declared subsequent to the reporting date has not been brought to account in the financial statements for the year ended 31 May 2011 and will be recognised in subsequent financial reports. Franked dividends determined or paid during the year were franked at the tax rate of 30%.

The Company considers the dividends in respect of the 2011 financial year frankable for Australian tax purposes as the dividends are being paid out of current period profits. Alesco has sufficient franking credits available to fully frank the dividends. However, as a consequence of amendments to the *Corporations Act 2001* in 2010 impacting on the payment and franking of dividends, the Commissioner of Taxation has informally expressed a preliminary view in an ATO Draft Fact Sheet dated 21 June 2011 that where a company's net assets are less than its share capital and the company debits a dividend to an account such as accumulated losses, a dividend will be sourced indirectly from share capital and will be unfrankable.

The ATO Draft Fact Sheet does not specifically address the circumstances where a company is paying a dividend from current period profits and Alesco considers that this is an appropriate basis on which to distinguish the preliminary ATO view.

Alesco has sought a formal ATO ruling seeking confirmation that the final dividend in respect of the 2011 financial year is fully franked. The ATO has indicated that this ruling is being considered and that it will endeavour to provide the ruling prior to

the payment date for the final and special dividends. Alesco will advise shareholders when the ATO ruling has been received. The ATO view is relevant to the interim and special dividends in respect of the 2011 financial year.

The dividend reinvestment plan continues to be suspended.

### Directors' interests

The relevant interest of each Director in the share capital of the Company as notified by the Directors to the Australian Stock Exchange in accordance with section 205G(1) of the *Corporations Act 2001* at the date of this report are set out as follows.

	ORDINARY SHARES
MB Luby	32,000
PJ Boyd	88,089
NA Thompson	149,925
RM Aitken	126,280
JW Hall	46,667
RV McKinnon	7,500
EJ Pope	70,163
JA Tait	20,000

### Share options

There were no options issued during the year. Neither at the date of this report nor any time during the year were there any unissued ordinary shares of the Company under option.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2011

### Indemnification and insurance of officers and auditors

#### Indemnification

The Company has agreed to indemnify the current and former Directors and secretaries of the Company and its controlled entities as well as the members of the Executive Committee and other key executives against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

#### Insurance premiums

Since the end of the previous financial year the Company has paid insurance premiums in respect of Directors' and officers' liability and legal expenses insurance contracts, for current and former Directors and officers of the Company and its controlled entities. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

### Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Audit and Compliance Committee has reviewed and considered the non-audit services provided during the year by the auditor and in accordance with advice provided by the Audit and Compliance Committee the Board is satisfied that the provision of those non-audit services complies with the Company's corporate governance policies and is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001*.

Details of amounts paid to the auditor, KPMG, for services other than the statutory audit are set out as follows:

	CONSOLIDATED	
	2011	2010
NON-AUDIT SERVICES	\$	\$
Taxation compliance <sup>1</sup>	113,557	114,565
Taxation compliance <sup>2</sup>	54,881	172,282
Other services <sup>1</sup>	20,871	17,800
	189,309	304,647

1. KPMG Australia.

2. Overseas KPMG firms.

### Rounding off

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