

## REMUNERATION REPORT

### REMUNERATION OVERVIEW

Full details of the remuneration for executives and non-executive directors are set out in the Remuneration Report on pages 38 to 59. The Remuneration Report has been prepared in accordance with statutory obligations and accounting standards.

This Remuneration Overview has been prepared to provide a short overview of the Company's remuneration policies and practices as they relate to key management personnel (**KMPs**) in the financial year ended 31 May 2010 (**FY10**) and to provide a brief outline on entitlements for KMPs for the financial period ending 31 May 2011 (**FY11**). Further details are set out in the Remuneration Report.

Except where expressly stated, in relation to FY10, all references to Managing Director and Chief Executive Officer apply to Justin Ryan who was in this position until 2 May 2010. In relation to FY11, all references to Managing Director and Chief Executive Officer apply to Peter Boyd who was appointed to this position from 3 May 2010.

In this Overview and the Remuneration Report references to directors apply to non-executive directors and references to executives apply to executive directors and other senior executives.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### Brief summary of key management personnel changes

The following key management personnel changes occurred during the FY10 period and up to the date of this report:

- On 23 September 2009, Mark Luby, the Deputy Chairman was appointed Chairman of the Board, following the retirement of Sean Wareing.
- On 3 February 2010, Rob Guttentag was appointed to the role of Group General Manager, Functional & Decorative Products division. Jim Brennan moved to the newly created role of General Manager Sales & Marketing, Functional & Decorative Products division reporting to Rob Guttentag and no longer sits on the Executive Committee. On 19 April 2010, Rebelle Moriarty was appointed to the newly created role of Group General Manager, Human Resources. On 1 June 2010, Richard Lewis was appointed to the newly created role of Group General Manager, Operations. The new executives were appointed to the Executive Committee.
- On 3 May 2010, Peter Boyd was appointed Managing Director and Chief Executive Officer, following the resignation of Justin Ryan. Peter was formerly the Group General Manager, Garage Doors & Openers division.
- As at 31 May 2010, the Executive Committee comprised nine senior executives.

### Approach taken in FY10

The Board, with the support of management, adopted the following remuneration practices during the year ended 31 May 2010 in direct response to the Company's operating environment and performance:

- There was no increase in non-executive directors' fees during FY10, although the Board committees were restructured to reallocate workloads following the retirement of the former Chairman. With the new appointment, the base fee for the new Chairman was reduced from \$280,000 to \$250,000.
- All executive FY10 salaries were frozen at the FY09 levels. These salary levels were last set in June 2008.
- Salaries and wages were frozen across the organisation in FY10, except in accordance with award or enterprise agreements, promotions or limited special circumstances.
- The general employee share plan and the Alesco Management Share Plans (**AMSP**) were suspended following changes to employee share plans announced in the Federal Budget on 12 May 2009 and pending the Productivity Commission's review of these changes. A new long-term Alesco Cash Incentive Plan (**CIP**) was introduced in FY10 as an interim measure for executives and their direct reports. The CIP has two performance hurdles, each of which accounts for 50% of the potential incentive reward to a participant and each of which will be assessed separately. The hurdles are based on compound annual growth in earnings per share before amortisation of intangibles and significant items (**EPS Growth**) and total shareholder returns (**TSR**), both calculated over a three-year period. Executives could elect to participate in the Alesco Performance Share Acquisition Plan (**APSAP**) or the CIP. Further details on these plans are on pages 43 to 48 of the Remuneration Report.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### Remuneration targets and outcomes for FY10

During FY10, a review on the Group's remuneration practices was conducted at the direction of the Board, with oversight by the Human Resources Committee. This assessment was carried out with the assistance of Egan Associates, an external and independent remuneration consultant.

This review included analysing the effectiveness of the remuneration structure in place (with particular focus on short-term and long-term incentives), determining how the remuneration structure can be best aligned with the objective of sustained shareholder value creation over time, and ensuring the reward strategy will continue to be an effective element in attracting, motivating and retaining senior executive talent.

Having regard to the Company's poor financial performance over the past two years, the Board has worked to balance the expectations of stakeholders and the need to attract, motivate and reward executives.

In keeping with current market best practice, a substantial proportion of remuneration for senior executives in FY10 was at risk and would only be paid if key performance measurements were met. The following table sets out the average annualised remuneration achieved in FY10 by KMPs.

	TOTAL FY10 TARGET REMUNERATION ANNUALISED (% TOTAL REMUNERATION PACKAGE)				TOTAL FY10 REMUNERATION ACHIEVED ANNUALISED
	FIXED REMUNERATION	VARIABLE REMUNERATION (PERFORMANCE-BASED)			
	BASE SALARY INCLUSIVE OF SUPERANNUATION	SHORT-TERM INCENTIVE (STI)	LONG-TERM INCENTIVE (LTI)	TOTAL VARIABLE REMUNERATION	TOTAL ACHIEVED
Managing Director <sup>1</sup>	30.8%	30.8%	38.4%	69.2%	30.8%
Finance Director	42.1%	30.9%	27.0%	57.9%	42.1%
Other executives (in aggregate)	40.3%	31.8%	27.9%	59.7%	45.2%

1. This relates to JJ Ryan and excludes the contractual termination payments and statutory entitlements paid following his resignation on 2 May 2010.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

The table below sets out the remuneration received by executives in FY10 in actual pay terms.

In summary:

- One executive will be paid a short-term incentive bonus under the FY10 STI plan. This is to Peter Boyd in his capacity of Group General Manager, Garage Doors & Openers and relates to the performance of the Garage Doors & Openers division.
- Neil Thompson, the Finance Director received an additional one-off payment of \$50,000 to reflect increased duties during 1 December 2009 to 31 May 2010.
- No value was derived in relation to the long-term incentive program granted to executive directors and senior management in 2007 as the three-year performance hurdles to 31 May 2010 were not met. As a result, these incentives will either be forfeited or awards not granted as the case requires.

EXECUTIVE	FIXED REMUNERATION (BASE SALARY INCLUDING SUPER-ANNUATION)	SHORT-TERM INCENTIVE (STI)	SHORT-TERM INCENTIVE (STI)	LONG-TERM INCENTIVE (LTI) <sup>1</sup>	LONG-TERM INCENTIVE (LTI)	OTHER	TOTAL CASH ENTITLEMENT
		MAXIMUM ENTITLEMENT	ACHIEVED	MAXIMUM ENTITLEMENT	ACHIEVED		ACHIEVED
CURRENT EXECUTIVES	\$	\$	\$	\$	\$	\$	\$
PJ Boyd	513,234	400,000	248,000 <sup>2</sup>	251,640	0	0	761,234
J Brennan <sup>3</sup>	317,809	352,000	60,000 <sup>4</sup>	209,996	0	0	377,809
SS Cox	420,000	336,000	0	266,003	0	0	420,000
RF Guttentag <sup>5</sup>	160,000	120,000	0	n/a	n/a	0	160,000
RK Moriarty <sup>6</sup>	43,679	n/a	n/a	n/a	n/a	0	43,679
BJ O'Connor	320,000	256,000	0	213,504	0	0	320,000
WL Powell	420,000	336,000	0	252,004	0	0	420,000
L Rafferty	440,000	352,000	0	266,003	0	0	440,000
NA Thompson	600,000 <sup>7</sup>	440,000	0	451,216	0	0	600,000
<b>Former executives</b>							
JJ Ryan <sup>8</sup>	916,666	1,000,000	0	1,240,844	0	1,700,000	2,634,756

1. This relates to the 2007 LTI which had a measurement period ended 31 May 2010. No incentives vested in relation to the 2007 LTI. As the performance periods for the 2008, 2009 and 2010 LTI plans have not yet ended, no amounts have been included above as the final outcome on these incentives is still to be determined.
2. This short-term incentive relates to the performance of the Garage Doors & Openers division in FY10 but will not be paid to PJ Boyd until August 2010.
3. J Brennan moved to a newly created role of General Manager Sales & Marketing, Functional & Decorative Products division on 3 February 2010 and no longer sits on the Executive Committee.
4. This payment relates to a one-off special project relating to Robinhood undertaken during FY09. The award was achieved on completion of the project but was not paid until November 2009.
5. RF Guttentag was appointed on 3 February 2010.
6. RK Moriarty was appointed on 19 April 2010.
7. This amount includes the additional one-off payment of \$50,000 to reflect increased duties during 1 December 2009 to 31 May 2010.
8. JJ Ryan resigned from the position of Managing Director and Chief Executive Officer of Alesco on 2 May 2010. Under his employment contract the Company was required to pay him a termination payment of \$1,700,000. This total cash payment includes \$18,090 of statutory entitlements. See further details on page 50 of this report.

The information in the table above does not include certain amounts shown in the key management personnel compensation table on page 52 of the Remuneration Report. This is because the key management personnel compensation table in the Remuneration Report includes amounts in respect of a number of benefits which did not deliver value to executives in FY10. For example, it includes accounting values for long-term incentive grants to senior executives which are based on current circumstances and estimates and which have not yet been realised and may never be realised in full as they are dependent on future market-based and company-based performance hurdles being met.

## Approach to be taken in FY11

As a result of the remuneration review undertaken in FY10, the Board has implemented the following remuneration framework for FY11:

- Directors' annualised fees remain unchanged.
- The remuneration arrangements for Peter Boyd, the new Managing Director appointed on 3 May 2010, were set with an annual base salary (including any superannuation and fringe benefits) of \$750,000. This compares to the former Managing Director's annual base salary of \$1,000,000. In FY11 Mr Boyd is entitled to a short-term incentive of up to a maximum of 100% of base salary, subject to achieving agreed performance targets. In July 2010, Mr Boyd's maximum long-term incentive performance hurdle target was reset at 100% of base remuneration (rather than 125% of base remuneration as announced on 3 May 2010), subject to achieving agreed performance targets. It is intended that Mr Boyd will participate in the proposed Alesco Performance Rights Plan, subject to shareholders' approval at the 2010 annual general meeting. Mr Boyd's total potential remuneration (based on full STI and LTI achievement) in FY11 is estimated at \$2,250,000 down approximately 30% compared to Mr Ryan's total potential remuneration package in FY10 (\$3,250,000).
- There are no salary increases for executives except in circumstances relating to new appointments and one market adjustment.
- Modest wage and salary increases for employees in FY11 have been budgeted in the range of 0% to 4% except in circumstances relating to new appointments, promotions or limited market adjustments.
- The performance hurdle range for short-term incentives (**STIs**) for all KMPs has been adjusted from 95% to 115% of achievement of the FY11 budget to 90% to 110%, with 70% of the total STI component to be allocated to divisional performance and 30% to be allocated to Group performance. A gate will be applied at the divisional level requiring the divisional executives to achieve the divisional earnings before interest and tax (**EBIT**) threshold hurdle before being given the opportunity to participate in any possible corporate STI component. Corporate executives are subject to 100% Group performance.
- Subject to shareholder approval, the Board proposes to adopt a new Alesco Performance Rights Plan (**Rights Plan**) to replace the long-term incentive programs currently in place. The maximum participation in the Rights Plan for executives is to be reduced from 70% to 50% of Fixed Remuneration and 125% to 100% of Fixed Remuneration for the Managing Director. The vesting of the performance rights will be subject to two new performance hurdles, each of which accounts for 50% of the performance rights granted to a participant and each of which will be assessed separately. The hurdles are to be based on compound annual growth in earnings per share after significant items (**Net EPS Growth**) and total shareholder returns (**TSR**), both calculated over a three-year period. It is proposed that a re-testing opportunity will occur at the end of the fourth year (i.e. based on Alesco's EPS and TSR performance over a four-year period).

These performance conditions were chosen having regard, among other things, to the following objectives:

- setting performance targets and stretch outcomes that are achievable having regard to the Group's business plan and strategy;
- providing an incentive for decisions to be made with regard to long-term performance outcomes; and
- seeking to lock in high performing employees with deferred vesting over a reasonable period of time.

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

FOR THE YEAR ENDED 31 MAY 2010

### **REMUNERATION REPORT (AUDITED)**

The Remuneration Report for FY10 comprises five sections:

**Section 1 – Introduction**

**Section 2 – FY10 Executive Remuneration Framework**

**Section 3 – Company Performance Outcomes**

**Section 4 – Executive Remuneration**

**Section 5 – Non-executive Directors' Remuneration**

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### SECTION 1 – INTRODUCTION

This Remuneration Report forms part of the Directors' Report and has been prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and the consolidated entity (the **Alesco Group**) for the year ended 31 May 2010.

This report provides a summary of the remuneration policies and practices adopted by the Alesco Group during the FY10 period for directors and key management personnel as defined by the Accounting Standard AASB 124 *Related Party Disclosures*.

For the purposes of this report, except where otherwise specified, the remuneration arrangements disclosed in this report apply to the non-executive directors and the executive directors and senior executives (**Key Management Personnel or KMPs**) set out below which includes the five highest remunerated executives of the Company and the Group during the reporting period.

Except where expressly stated, in relation to FY10, all references to Managing Director and Chief Executive Officer apply to Justin Ryan who was in this position until 2 May 2010. In relation to FY11, all references to Managing Director and Chief Executive Officer apply to Peter Boyd who was appointed to this position from 3 May 2010.

In this Remuneration Report references to directors apply to non-executive directors and references to executives apply to executive directors and other senior executives.

#### KEY MANAGEMENT PERSONNEL

NAME	POSITION
<b>Non-executive directors</b>	
Mark Bernard Luby <sup>1</sup>	Non-executive Director and Chairman
Robert (Rob) Murray Aitken	Non-executive Director
James (Jim) William Hall	Non-executive Director
Robert (Bob) Victor McKinnon	Non-executive Director
Ernest (Ern) John Pope	Non-executive Director
<b>Former non-executive directors</b>	
Sean Patrick Wareing <sup>2</sup>	Non-executive Director and Chairman
<b>Executives</b>	
Peter John Boyd <sup>3</sup>	Managing Director and Chief Executive Officer
James (Jim) Brennan <sup>4</sup>	Group General Manager Functional & Decorative Products
Neil Alexander Thompson	Finance Director
Stephen Scott Cox	Group General Manager Construction & Mining
Robert (Rob) Francois Guttentag <sup>5</sup>	Group General Manager Functional & Decorative Products
Rebelle Kim Moriarty <sup>6</sup>	Group General Manager Human Resources
Brian Joseph O'Connor	Chief Information Officer
Wayne Lawrence Powell	Group General Manager Water Products & Services
Luci Rafferty	Group General Manager Legal & Corporate Affairs
<b>Former executives</b>	
Justin James Ryan <sup>7</sup>	Managing Director and Chief Executive Officer

1. MB Luby was appointed Chairman from 23 September 2009.

2. SP Wareing retired on 23 September 2009 at the 2009 annual general meeting having served his permitted nine-year term and was replaced as Chairman by MB Luby.

3. PJ Boyd was appointed to the position of Managing Director and Chief Executive Officer of Alesco on 3 May 2010 and was previously the Group General Manager, Garage Doors & Openers division.

4. J Brennan moved to the newly created role of General Manager Sales & Marketing, Functional & Decorative Products division on 3 February 2010 and no longer sits on the Executive Committee.

5. RF Guttentag joined Alesco in the role of Group General Manager Functional & Decorative Products division on 3 February 2010.

6. RK Moriarty joined Alesco in a newly created Group General Manager Human Resources role on 19 April 2010.

7. JJ Ryan resigned from the position of Managing Director and Chief Executive Officer of Alesco on 2 May 2010.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### Human Resources Committee

The Board oversees Alesco's remuneration policies and practices through its Human Resources Committee. A summary of the Human Resources Committee charter can be found in the Corporate Governance section on the Alesco website. One of the key responsibilities of this Committee is to make recommendations to the Board on the level and form of executive remuneration. To assist it in this process, the Committee obtains independent external advice on the appropriateness of compensation packages for directors and senior executives of both the Company and the Alesco Group and, as part of its annual review, considers comparative remuneration, performance-related elements and the objectives of the Company's overall compensation strategy.

The Committee comprises only non-executive directors. The membership of the Committee was refreshed on 1 October 2009, following the appointment of the new Chairman of the Board, with Rob Aitken appointed Committee Chairman and Mark Luby and Ern Pope appointed Committee members.

The Chief Executive and certain other senior executives, as may be appropriate, are invited to attend the meetings to participate in certain deliberations regarding organisational remuneration framework and succession planning. The Chief Executive will also participate in deliberations regarding remuneration arrangements for the executive team (other than his own). The Committee Chairman directly liaises with external remuneration consultants in relation to the remuneration framework for the Chief Executive and his direct reports.

The Committee uses external specialist remuneration consultants from time to time to assist in its deliberations. Egan Associates has been used as the principal remuneration consultant during the reporting period.

### Principles of the compensation framework

The Alesco Group's remuneration strategy is designed to attract, retain and motivate appropriately qualified and experienced directors and senior executives. Key principles in developing the remuneration structure and levels include the creation of longer term shareholder value, alignment with shareholder interests, market competitiveness, recognition of individual performance and experience and divisional and Group performance.

### SECTION 2 – FY10 EXECUTIVE REMUNERATION FRAMEWORK

In FY10, compensation packages included a mix of fixed and variable compensation and short-term and long-term performance-based incentives based on factors that were under the executives' control and maximise the longer term performance of the Company. In keeping with current market best practice, most senior executives had a significant proportion of their rewards "at risk". In most instances, between 30% to 42% of total potential remuneration of executives is paid as fixed salary. In addition to cash salaries, the Group also provided non-cash benefits and compulsory superannuation contribution on behalf of executives.

#### Remuneration mix assuming maximum bonus achieved:

##### Managing Director

Base – 30.8%	STI – 30.8%	LTI – 38.4%
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##### Finance Director

Base – 42.1%	STI – 30.9%	LTI – 27.0%
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##### Other Executives

Base – 40.3%	STI – 31.8%	LTI – 27.9%
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In FY10, executives achieved on average between 31% to 45% of their target annualised remuneration.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### Remuneration

The remuneration structure for executives has two components:

Fixed remuneration (known as FAR)	<ul style="list-style-type: none"><li>• Base salary</li><li>• Superannuation</li><li>• Other short-term benefits (including fringe benefits tax (FBT) charges related to employee benefits and motor vehicles)</li></ul>	<ul style="list-style-type: none"><li>• Paid as fixed annual reward</li></ul>
Variable remuneration (performance-linked)	<ul style="list-style-type: none"><li>• Short-term incentives – paid in cash following the release of the financial results</li><li>• Long-term incentives – paid in either shares or cash under the rules of the incentive share plans</li></ul>	<ul style="list-style-type: none"><li>• Measured over a 12-month period</li><li>• Measured over a three-year period</li></ul>

#### Fixed remuneration

Fixed annual remuneration for all executives is not performance-linked and is not at risk. It is generally pitched at a market median based on the 50th percentile of a selected comparator group and is calculated on a total cost basis. Competitor comparisons are complicated by the distinct nature of Alesco's business mix. The competitor comparator group is a mix of between 15 to 20 companies listed on the Australian Securities Exchange (predominantly part of the ASX 200 Index) with a range of market capitalisations and revenues and reflect a group of companies which Alesco may compete with or are in a similar industry to Alesco or to which Alesco may look to recruit and/or may be at risk of losing key executives. The selected comparator group has remained substantially the same over the past three financial years, but not identical, recognising revenue growth and change of market capitalisation of Alesco as well as other companies during this period.

The fixed remuneration component is determined by the role, the knowledge and experience of the personnel concerned and the skills required to perform the role as well as the prevailing market conditions. A senior executive's remuneration is also reviewed on promotion or change of role.

#### Variable remuneration (performance-linked)

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward executives for performance. These incentives are not an entitlement but reward participants for the Company's overall financial results or the individual or team contribution to the performance. Short-term incentive targets for executives are set having regard to market conditions and range from 80% of base salary for executives to 100% at CEO level.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### Short-term incentives

Purpose of short-term incentives	To drive individual, divisional and Group performance in line with annual business plans and targets to deliver shareholder value.				
Frequency and timing	Participation is determined on an annual basis with performance measured over the financial year ended 31 May. Grants were set in June 2009 as part of the performance and remuneration review process.				
Performance measures used	Each year the Human Resources Committee recommends to the Board the key performance indicators (KPIs) for executives. KPIs generally include measures relating to the Group, the relevant business segment and the individual, and may include a mix of financial and non-financial measures. These performance conditions were chosen to drive divisional and individual performance designed to deliver value to shareholders.				
Financial measures used	<table border="0"> <tr> <td>Corporate executives</td> <td> <ul style="list-style-type: none"> <li>• Group's earnings per share (before significant items and amortisation of intangibles)</li> <li>• Group's return on equity (before significant items and amortisation of intangibles)</li> <li>• non-financial measures</li> </ul> </td> </tr> <tr> <td>Divisional executives</td> <td> <ul style="list-style-type: none"> <li>• average trade working capital/sales</li> <li>• segment earnings before interest, tax and amortisation of intangibles and significant items (EBITA)</li> </ul> </td> </tr> </table>	Corporate executives	<ul style="list-style-type: none"> <li>• Group's earnings per share (before significant items and amortisation of intangibles)</li> <li>• Group's return on equity (before significant items and amortisation of intangibles)</li> <li>• non-financial measures</li> </ul>	Divisional executives	<ul style="list-style-type: none"> <li>• average trade working capital/sales</li> <li>• segment earnings before interest, tax and amortisation of intangibles and significant items (EBITA)</li> </ul>
Corporate executives	<ul style="list-style-type: none"> <li>• Group's earnings per share (before significant items and amortisation of intangibles)</li> <li>• Group's return on equity (before significant items and amortisation of intangibles)</li> <li>• non-financial measures</li> </ul>				
Divisional executives	<ul style="list-style-type: none"> <li>• average trade working capital/sales</li> <li>• segment earnings before interest, tax and amortisation of intangibles and significant items (EBITA)</li> </ul>				
Non-financial measures	<p>Non-financial measures vary with the position and responsibility and typically cover areas including:</p> <ul style="list-style-type: none"> <li>• safety, health and environment performance</li> <li>• people development and training</li> <li>• operational improvements</li> <li>• restructuring and rationalisation</li> <li>• growth and acquisitions</li> <li>• strategic outcomes</li> <li>• other discretionary performance targets</li> </ul> <p>In most instances but not all, non-financial measures are considered in the context of a base salary review.</p>				
Reasons why performance conditions were chosen	These measures were chosen principally because they help drive individual, business and Group performance. The performance hurdle for the short-term incentives is driven around a combination of individual, business and Group performance. Basic earnings per share and return on equity are some of the financial performance targets used in setting the short-term incentives which help to drive shareholder returns. In addition, individual and business targets help to motivate individual and business performance.				
Achievement levels	<p>If the FY10 performance measures are achieved:</p> <ul style="list-style-type: none"> <li>• key executives (excluding the Chief Executive) can earn up to 80% of FAR as a short-term bonus; and</li> <li>• the Chief Executive can earn up to 100% of FAR as a short-term bonus.</li> </ul> <p>To achieve the maximum bonus the executive must have achieved stretch performance. Divisional executives have 70% of their total STI weighted to divisional performance and 30% of their total STI weighted to Group performance.</p>				
Financial performance	<p>The measurement basis for the FY10 STI was:</p> <ul style="list-style-type: none"> <li>• 0% for achieving 95% or less of budget/target performance</li> <li>• 50% of maximum for achieving 100% of budget/target performance</li> <li>• 100% of maximum for achieving 115% of budget/target performance</li> </ul> <p>with a pro-rata payment between 95% and 115%.</p>				
Assessment of performance	<p>At the end of the financial year, the Human Resources Committee assesses the actual performance of the Group and the relevant segment and individual performance overall and against the KPIs set at the beginning of the financial year. A percentage of the predetermined maximum amount is awarded depending on the performance which is generally in the range of 0% for minimum performance and 100% for stretch performance. No STI is awarded where performance falls below the minimum.</p> <p>The Human Resources Committee recommends the cash incentive to be paid to the individuals for approval by the Board. This method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance. The payment of any STI is at the discretion of the Board and occurs generally in August, after these reviews are completed and the audited year-end financial results have been released to the market.</p>				
Service condition	New executives may be eligible to participate in the STI program on a pro-rata entitlement basis. The Board retains discretion in awarding a payment to executives who retire, die or are retrenched during the performance period. No payments are made to executives who have their employment terminated for inadequate performance or misconduct, before the end of the performance period.				

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### Long-term incentives

Long-term incentives have in the past been provided to Alesco's senior executive and divisional management through equity-based plans under which participants receive shares in the Company. In prior years, the two equity-based plans in place for key executives were the Alesco Performance Share Acquisition Plan (**APSAP**) and the Alesco Management Share Plan (**AMSP**).

These plans aimed:

- to provide key executives with a financial interest in Alesco aligning the interests of executives more closely to those of Alesco's shareholders;
- to attract, retain and motivate key executives to perform and deliver value to shareholders; and
- to provide greater focus on delivering on longer term performance.

The Board suspended the AMSP following changes to share plans announced in the Federal Budget in May 2009. Following an independent review conducted by Egan Associates, key executives were instead invited to participate in the FY10 long-term incentives program by either participating:

- in the APSAP only; or
- in a new cash-based incentive plan (**CIP**). The CIP was introduced in 2009 as an interim measure instead of the AMSP and as an alternative to the APSAP. This plan gives participants the opportunity to earn a cash payment subject to two performance hurdles being met, each of which accounts for 50% of the incentive reward and will be assessed separately. In addition to Alesco's earnings per share growth hurdle applicable in the APSAP, the Board introduced a total shareholder return (**TSR**) hurdle, both to be measured over a three-year period from 1 June 2009. The CIP was an alternative program offered in FY10 for those executives who did not wish to participate in the APSAP and incur additional loans in connection with the acquisition of Alesco shares.

As previously reported in FY09, the Board modified the FY09 long-term incentive arrangements by allowing the incentive to comprise a mix of shares issued under the rules of the incentive share plans and up to 25% of the total entitlement in cash. Under this arrangement, the Company will pay those executives participating in this arrangement an amount in cash equal to 25% of the executive's fixed annual remuneration as at 31 May 2008. This payment is conditional on the executive being employed by Alesco on 31 May 2011. This payment does not have any performance conditions attached. However, senior executives may elect to, or the Board may otherwise determine that the executives, use the payment to repay any loan amounts outstanding under the APSAP. These arrangements were one-off in nature and apply only in relation to FY09 and to those KMPs who were employed as at 31 May 2008. Participants eligible for this LTI payment "2008 Cash LTI" are identified on pages 54 and 55.

### Alesco Performance Share Acquisition Plan (APSAP)

The Company first implemented the APSAP for its most senior executives in 2006 and has since made offers to participants on an annual basis. Shares granted under this plan to the senior executives during FY10 are identified in the tables on pages 54 to 57 of the Remuneration Report.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

A summary of the key operating features for the APSAP and the offers made in FY10 is as follows:

FY10 OFFER	ALESKO PERFORMANCE SHARE ACQUISITION PLAN (APSAP)																		
Operation of the FY10 APSAP	Loans were provided to the executives to fund the acquisition of ordinary fully paid shares in the Company at \$4.8508 per share (the issue price at the time of allocation). Ownership in the shares vested immediately with the senior executive and although the loans are interest-free, they are full recourse loans.																		
Participation	Executives approved by the Board. Participation in the plan was voluntary. In FY10, participants could elect to participate in the CIP rather than the APSAP.																		
Offer timing	Grants were made following the release of the FY09 results on or about 2 November 2009 to executives, approved by the Board.																		
Reasons why performance conditions were chosen	The performance condition is driven around earnings per share growth (before amortisation of intangibles and significant items) ( <b>EPS Growth</b> ) over a three-year measurement period. This measure was chosen principally because it is a measure of profitability, is a direct determinant of dividends and, overall, is a measure of Alesco's long-term success as it contains clear links to shareholder value creation. This measure provides an incentive for decisions to be made with regard to long-term performance outcomes over three financial years and seeks to lock in high performing employees with deferred vesting of a three-year period.																		
Achievement levels	Loans provided: <ul style="list-style-type: none"> <li>• for executives were in amounts up to 70% of FAR; and</li> <li>• for the Chief Executive (i.e. the former Chief Executive) in amounts up to 125% of FAR.</li> </ul>																		
Restriction period	The shares issued under the APSAP are subject to a holding lock which will apply until the later of the third anniversary of the grant date and the date the loan relating to the shares has been fully repaid. The Plan rules provide that the loan must be repaid by no later than the 10th anniversary of the issue date of the shares or within 30 days after cessation of employment, subject to the discretion of the Board.																		
Awards	Awards will be earned in the form of either cash bonuses (with the after tax amount used to pay down the outstanding loan) or loan waivers. The awards are subject to the performance hurdle which then determines the extent of the cash bonus or loan waiver granted. The amount of the award granted, if any, will be an amount equal to or less than 53.5% of the amount of the relevant loan depending on the level of performance against the performance hurdle.																		
Performance conditions	The performance hurdle for the FY10 allocation of shares requires Alesco's EPS Growth for the period from 1 June 2009 to 31 May 2012 to be in the range of 0% to 10%. In determining this compound annual growth rate, the base number used was determined based on target and stretch amounts approved by the Board having regard to the future plans and objectives of the Company and the base number was set at 45.30 cents per share. The FY10 performance condition will be measured following the release of the FY13 audited financial results.																		
Measurement	<table border="1"> <thead> <tr> <th>EPS Growth over the Measurement Period</th> <th>% of Maximum Award</th> <th>Amount of Loan reduction as % of Initial Loan to acquire Shares*</th> </tr> </thead> <tbody> <tr> <td>&lt;0%</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>&gt;0% and &lt;5%</td> <td>Pro-rata</td> <td>Pro-rata</td> </tr> <tr> <td>5%</td> <td>66.7%</td> <td>35.67%</td> </tr> <tr> <td>&gt;5% and &lt;10%</td> <td>Pro-rata</td> <td>Pro-rata</td> </tr> <tr> <td>10% or &gt;</td> <td>100%</td> <td>53.5%</td> </tr> </tbody> </table> <p>*assumes a highest marginal tax rate of 46.5% (inclusive of Medicare Levy).</p>	EPS Growth over the Measurement Period	% of Maximum Award	Amount of Loan reduction as % of Initial Loan to acquire Shares*	<0%	0%	0%	>0% and <5%	Pro-rata	Pro-rata	5%	66.7%	35.67%	>5% and <10%	Pro-rata	Pro-rata	10% or >	100%	53.5%
EPS Growth over the Measurement Period	% of Maximum Award	Amount of Loan reduction as % of Initial Loan to acquire Shares*																	
<0%	0%	0%																	
>0% and <5%	Pro-rata	Pro-rata																	
5%	66.7%	35.67%																	
>5% and <10%	Pro-rata	Pro-rata																	
10% or >	100%	53.5%																	
Treatment of dividends	Any dividends paid by the Company on a post-tax basis (using the highest marginal tax rate, including Medicare Levy and the benefit of any imputation credits) will be applied to reduce the loan balance.																		
Sales restrictions post-vesting	Shares may be sold provided the loan relating to the shares has been fully repaid (or the proceeds from the sale will be used to repay the loan) and in accordance with the Company's Share Trading Policy.																		

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

FY10 OFFER	ALESICO PERFORMANCE SHARE ACQUISITION PLAN (APSAP)
Treatment of awards on cessation of employment	<p>The Rules of the Plan provide that a participant who ceases to be employed (through resignation, retrenchment or other Company initiated termination other than for cause) prior to the performance condition being met will be required to repay the outstanding loan amount in full within 30 days of cessation of employment, or longer at the discretion of the Board. Ownership of the shares remains with the participant. All rights to an award are forfeited except to the extent otherwise determined by the Board. If the outstanding loan balance is greater than the market value of the shares at the date of cessation, the Board may exercise its discretion and reduce the outstanding loan balance to the market value of the shares.</p> <p>In the case of death or total permanent disability (<b>TPD</b>), the Board will determine the extent to which an award will be granted and the outstanding loan balance is repayable in full within 12 months of death or determination of TPD. If the outstanding loan balance is greater than the market value of the shares at the date of death or TPD, the Board will reduce the outstanding loan balance to the market value of the shares.</p>
Treatment of awards on change of control	<p>If a change of control in the Company occurs whereby more than 50% of the issued capital is acquired by a third party, the award will be determined to be the maximum amount possible and granted upon the change of control event. If the Board so determines the participant may sell the shares to the bidder in which case the outstanding loan balance is repayable in full within 30 days of the sale. If the outstanding loan balance is greater than the market value of the shares at the date of the sale, the Board will reduce the outstanding loan balance to the market value of the shares.</p>
Other restrictions	<p>The Company has in place a policy prohibiting directors and employees from using derivatives or other similar mechanisms to limit the economic risk of participating in entitlements held under any equity-based remuneration schemes. Any trading of Alesco shares must be in accordance with the Alesco Share Trading Policy.</p>

The following table summarises the key dates and current status of all current outstanding LTI plans:

APSAP					
CALENDAR YEAR OF GRANT	ISSUE PRICE	VESTING PERIOD	PERFORMANCE HURDLE	PERFORMANCE STATUS	FINAL RELEASE DATE
2006	\$9.90	1 June 2006 – 31 May 2009	Alesco's EPS Growth for the period from 1 June 2006 to 31 May 2009 to be in the range of 5% – 12%.	No awards granted as the performance hurdle was not met. The full loan amount (less any applicable dividends or repayment) is payable by the participant.	31 May 2016
2007	\$11.28 and \$12.28	1 June 2007 – 31 May 2010	Alesco's EPS Growth for the period from 1 June 2007 to 31 May 2010 to be in the range of 5% – 12%.	No awards will be granted as the performance hurdle was not met. The full loan amount (less any applicable dividends or repayment) is payable by the participant.	31 May 2017
2008	\$6.79	1 June 2008 – 31 May 2011	Alesco's EPS Growth for the period from 1 June 2008 to 31 May 2011 to be in the range of 0% – 10%. In determining this compound annual growth rate, the base number to be used was set at 73.47 cents per share.	Performance hurdle testing window has not yet been reached.	31 May 2018
2009	\$4.8508	1 June 2009 – 31 May 2012	Alesco's EPS Growth for the period from 1 June 2009 to 31 May 2012 to be in the range of 0% – 10%. In determining this compound annual growth rate, the base number to be used was set at 45.30 cents per share.	Performance hurdle testing window has not yet been reached.	31 May 2019

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### Cash Incentive Plan (CIP)

The CIP was introduced in FY10 as an interim measure and as an alternative to the APSAP.

PLAN	SUMMARY OF CASH INCENTIVE PLAN (CIP)												
Operation of the CIP for FY10	The CIP was introduced in FY10 as an interim measure and as an alternative to the APSAP. Key executives as approved by the Board were offered the opportunity of receiving a cash incentive payment less applicable tax subject to certain performance hurdles being achieved over the measurement period.												
Grant timing	Grants were made in November 2009 following release of the FY09 audit financial results and completion of the performance and remuneration review process.												
Achievement levels	Achievement levels are: <ul style="list-style-type: none"> <li>• for executives up to 70% of FAR; and</li> <li>• for the Chief Executive up to 125% of FAR (i.e. the former Chief Executive at the time).</li> </ul>												
Measurement period	Three years commencing from 1 June 2009 until 31 May 2012.												
Reasons why performance conditions were chosen	The performance conditions comprising a mix of company-based and market-based based performance are focused on Alesco's earnings per share growth (before amortisation of intangibles and significant items) ( <b>EPS Growth</b> ) and total shareholder returns ( <b>TSR</b> ) over a three-year period commencing from 1 June 2009 until 31 May 2012 ( <b>Measurement Period</b> ). The EPS Growth hurdle was chosen principally because they are a measure of profitability, a direct determinant of dividends and, overall, a measure of Alesco's long-term success as it contains clear links to shareholder value creation. TSR was introduced as an additional hurdle following consultation with Egan Associates to allow the Company to benchmark itself against external market performance reflecting current market practice. The Company presently is part of the ASX 200 Index and the TSR measure provides a direct link between the vesting of the CIP and shareholder returns.												
Performance conditions	<p>The <b>EPS Growth</b> hurdle is the same hurdle under the APSAP, being Alesco's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) for the Measurement Period. In determining this compound annual growth rate, the base number used was determined based on target and stretch amounts approved by the Board having regard to the future plans and objectives of the Company. The base number used for the FY10 offer was 45.30 cents per share. The percentage of Maximum EPS Award specified in the right hand column of the table below relates to the maximum award to which participants are entitled in respect of Alesco's EPS Growth (i.e. 50% of the Maximum Total Award).</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">EPS Growth over the Measurement Period</th> <th style="text-align: center;">% of Maximum EPS Award</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">&lt;0%</td> <td style="text-align: center;">No incentive payment</td> </tr> <tr> <td style="text-align: center;">&gt;0% and &lt;5%</td> <td style="text-align: center;">Pro-rata</td> </tr> <tr> <td style="text-align: center;">5%</td> <td style="text-align: center;">66.7%</td> </tr> <tr> <td style="text-align: center;">&gt;5% and &lt;10%</td> <td style="text-align: center;">Pro-rata</td> </tr> <tr> <td style="text-align: center;">10% or &gt;</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table> <p>The TSR hurdle was introduced in the CIP plan and is based on a comparison of Alesco's TSR with the TSR of the constituents of the ASX 200 Index. In order for any award to vest, the Company's TSR must be equal to or greater than the median TSR performance of the comparator group. The comparator group is the constituent companies of the ASX/S&amp;P 200 Index as defined at the commencement of the performance period.</p> <p>The threshold hurdle will be the 51st percentile at which 50% of the total shareholder returns related incentive will vest. At the 75th percentile, 100% of the total shareholder returns related incentive will vest, with a linear progression between the two points. The percentage of Maximum TSR Award specified in the right-hand column in the following table relates to the maximum award which executives can be entitled in respect of Alesco's performance against the TSR hurdle (i.e. 50% of the Maximum Total Award).</p>	EPS Growth over the Measurement Period	% of Maximum EPS Award	<0%	No incentive payment	>0% and <5%	Pro-rata	5%	66.7%	>5% and <10%	Pro-rata	10% or >	100%
EPS Growth over the Measurement Period	% of Maximum EPS Award												
<0%	No incentive payment												
>0% and <5%	Pro-rata												
5%	66.7%												
>5% and <10%	Pro-rata												
10% or >	100%												

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### Cash Incentive Plan (CIP) (continued)

PLAN	SUMMARY OF CASH INCENTIVE PLAN (CIP)	
Performance conditions (continued)	<p><b>TSR over the Measurement Period</b></p> <p>&gt;0 and &lt;50th percentile of the ASX 200 Index 51st percentile</p> <p>&gt;51st percentile and &lt;75th percentile 75th percentile or &gt;</p>	<p><b>% of Maximum TSR Award</b></p> <p>No incentive payment 50%</p> <p>Pro-rata 100%</p>
	<p>The TSR hurdle and EPS Growth hurdle are assessed separately and participants do not need to achieve both the TSR hurdle and the EPS Growth hurdle in order to be entitled to a payment under the CIP; that is if the TSR hurdle is achieved but the EPS Growth hurdle is not (or vice versa), participants are still entitled to be paid an amount up to a maximum of 50% of the Maximum Total Award, depending on the performance against the TSR hurdle or EPS Growth hurdle, as applicable. If the Company's performance against both the EPS Growth hurdle and the TSR hurdle is less than the minimum threshold specified below, no incentive will vest.</p>	
Treatment of awards on cessation of employment	<p>Participants will not be entitled to any payment under the CIP if they are not employed by a member of the Alesco Group on 31 May 2012, except in the special circumstances as determined by the Board.</p>	
Other restrictions	<p>Not applicable.</p>	

### Alesco Management Share Plan (AMSP)

The Alesco Management Share Plan (**AMSP**) has been in place since 2002 and was suspended in FY10 following changes to the taxation treatment of employee share plans announced in the Federal Budget in May 2009. In prior years, participants could participate in two ways:

- Remuneration Shares: by electing to purchase Alesco shares with pre-tax remuneration (subject to local legislation) or bonuses; and
- Incentive Shares: which were offered at the discretion of the Board and were subject to the satisfaction of specific performance conditions.

No offers under the AMSP were made to executives in FY10. A general summary of the operation of the AMSP is set out below.

PLAN	SUMMARY OF TERMS OF AMSP
AMSP in FY10	<p>The AMSP was suspended in FY10 following changes announced in the Federal Budget in May 2009 and no offers were made to participants.</p>
Grant timing	<p>Not applicable.</p>
Restriction period	<p>Shares issued under the AMSP are held by a trustee and have a three-year holding lock. This trading lock is only released and the shares transferred to the participant once the relevant performance condition has been met and the participant calls for the shares. If the participant does not call for the vested shares they will be released 10 years after the allocation date.</p>
Reasons why performance conditions were chosen	<p>In previous offers, the performance condition has been based on EPS Growth. This measure was chosen principally because it is a measure of profitability, is a direct determinant of dividends and, overall, is a measure of Alesco's long-term success as it contains clear links to shareholder value creation.</p>
Performance conditions	<p>Not applicable for FY10.</p>
Treatment of dividends	<p>Participants are entitled to receive any dividends paid by the Company during the vesting period.</p>
Sales restrictions post-vesting	<p>The participant may request that any shares which have vested be transferred to the participant. The participant is permitted to sell these shares in accordance with the Company's Share Trading Policy.</p>
Treatment of awards on cessation of employment	<p>Generally, a participant who ceases to be employed (through resignation, retrenchment or other Company initiated termination other than for cause) prior to the performance condition being met, will forfeit rights to their incentive shares. Any vested shares credited to the participants account will be released to the participant.</p>
Other restrictions	<p>The Company has in place a policy prohibiting directors and employees from using derivatives or other similar mechanisms to limit the economic risk of participating in entitlements held under any equity-based remuneration schemes. The Company monitors this by requiring directors and executives to make annual declarations of their compliance with the Alesco Share Trading Policy.</p>

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

The following table summarises the key dates and current status of the current outstanding AMSP grants:

SUMMARY OF OFFERS UNDER THE AMSP					
CALENDAR YEAR OF GRANT	ISSUE PRICE	VESTING PERIOD	PERFORMANCE HURDLE (FOR INCENTIVE SHARES)	PERFORMANCE STATUS	FINAL RELEASE DATE
2007	\$11.28	1 June 2007 – 31 May 2010	EPS Growth equals or exceeds 5% compounded annually over a three-year period from 1 June 2007 to 31 May 2010.	The performance hurdle was not met and the incentive shares will be forfeited.	1 June 2017
2008	\$6.79	1 June 2008 – 31 May 2011	EPS Growth equals or exceeds 3% compounded annually over a three-year period from 1 June 2008 to 31 May 2011.	Performance hurdle testing window has not yet been reached.	1 June 2018
2009	n/a	n/a	n/a	n/a	n/a

Shares allocated in 2002 to 2005 exceeded the performance hurdle and incentive shares allocated to managers vested to those managers employed by the Group at the time of vesting.

### Employee share plans

The Company has in place a tax exempt plan called the Alesco Employee Share Plans (**AESP**).

Offers have been made to Australian employees since 2002 when the ESP was first established and since 2003 for New Zealand employees. The plans were last approved by the Company's shareholders in 2006. On average approximately 75% of Alesco's employees participate in the ESP.

In FY10 no offers were made to employees under the ESP given the uncertainty following the Federal Budget in May and the subsequent Productivity Commission review. It is intended that offers will be made to employees during FY11.

Under the ESP, eligible employees may acquire up to \$1,000 worth of Alesco ordinary shares. Employees other than New Zealand employees generally can receive up to \$500 worth of Alesco ordinary shares for no consideration. Due to legislative requirements, New Zealand employees are required to pay a nominal amount for these shares. Shares issued under the ESP cannot be sold until the earlier of three years after issue or the time when the participant is no longer employed by an Alesco Group company. In all other respects, shares issued rank equally with all other fully paid ordinary shares then on issue. The number of shares each participant receives is \$1,000 divided by the weighted average price at which the Company's shares are traded on the ASX on the seven days up to and including the date of allotment, rounded down to the nearest whole share.

### SECTION 3 – COMPANY PERFORMANCE OUTCOMES

The Board considers the performance-linked compensation structure in place is aligned with shareholder interests and supports and drives the achievement of the Company's strategic objectives as well as motivating senior management to strive for stretch performance.

The performance hurdle for the short-term incentives is driven around a combination of individual, business and Group performance. Individual and business targets help to motivate individual and business performance.

The performance hurdle for the FY10 long-term incentives is driven around EPS Growth and TSR.

EPS Growth takes into account the Group's net profit (before significant items and amortisation of intangibles).

This measure was chosen principally because it is a measure of profitability, is a direct determinant of dividends and, overall, is a measure of Alesco's long-term success with clear links to shareholder value creation.

TSR provides a direct link between executive reward and shareholder return and is measured against the ASX 200 Index and Alesco's relative performance in that index.

The remuneration of executives is linked to Group performance in two ways:

1. A significant part of their short-term incentive is dependent upon the Group achieving its financial and performance targets. In FY10 all executives experienced a substantially reduced overall remuneration package, including the actual loss of awards as well as the probable loss of any future awards under the existing long-term incentive plans. In FY10, the Company's performance and shareholder return has been such that only one executive will be paid any portion of their STI, notably Peter Boyd in his capacity as Group General Manager of Garage Doors & Openers division and based on the performance of that division.

## DIRECTORS' REPORT (CONTINUED)

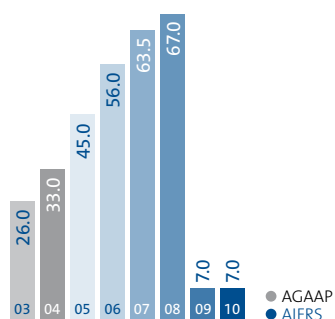
FOR THE YEAR ENDED 31 MAY 2010

2. Secondly, executives participating in the long-term incentive plans have also been exposed to the fall in the Alesco share price with the current market value of the shares held under the APSAP being significantly below the outstanding value of the loans used to purchase the shares held under the APSAP.

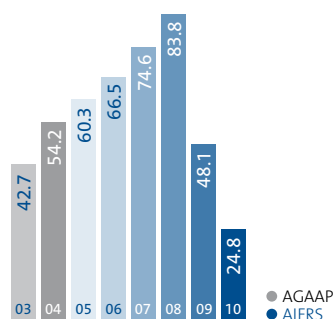
In addition, no awards have been granted in FY10 in relation to the APSAP shares issued in 2007 and any long-term incentive benefits have been forfeited.

The charts below demonstrate the performance of the Company over the past five years. Up until FY09, the Company achieved earnings per share and dividends per share growth and executives were rewarded for this performance. In FY10, the Company's overall performance has been well below expectations, and as a result, the majority of executives have not achieved their at risk remuneration.

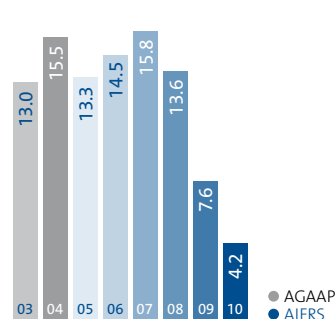
**Dividends per Share (cents)**



**Earnings per Share (cents)**



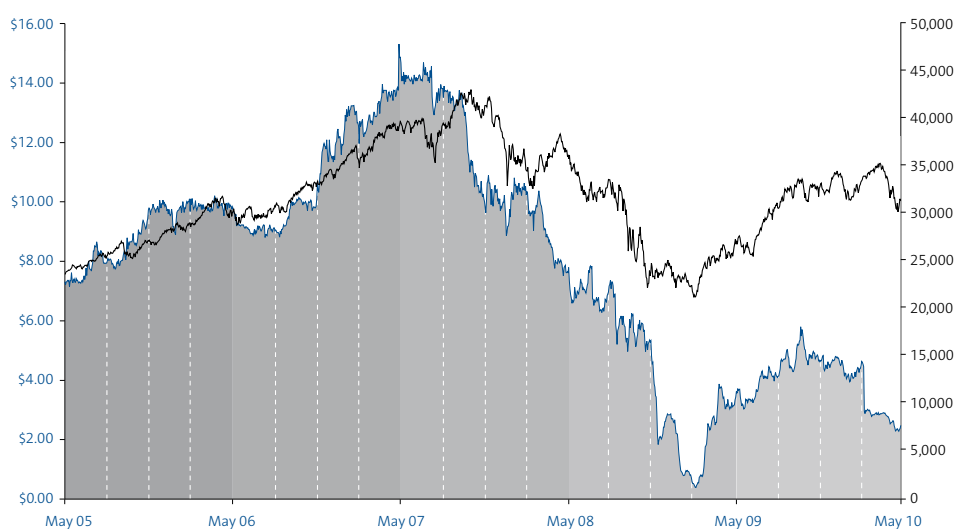
**Return on Equity (%)**



\*Based on profit after tax before amortisation and significant items

**Alesco Share Price (LHS)**

**S&P/ASX 200 Accumulation Index (RHS)**



## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### SECTION 4 – EXECUTIVE REMUNERATION

#### Executive contracts

It is the Alesco Group's policy that service contracts for executives are unlimited in term but capable of termination on at least one month's notice and up to 12 months' notice in the case of the Managing Director. The Alesco Group retains the right to terminate the contract immediately by making a payment in lieu of notice. Executives (other than the Managing Director) identified in this report all have a notice period of between three to six months.

#### Managing Director and Chief Executive Officer

Peter Boyd was appointed Managing Director and Chief Executive Officer of Alesco on 3 May 2010. A summary of the key terms of his contract is available on the Alesco website. The contract has no fixed term and the key details of his remuneration package are:

Fixed remuneration	\$750,000 per annum
STI	An annual short-term incentive up to a maximum of 100% of the base remuneration. This is based on the achievement of predetermined key performance indicators both financial and non-financial measures.
LTI <sup>1,2</sup>	An annual grant of Alesco shares equivalent to a maximum of 100% <sup>2</sup> of the base remuneration payable in shares.
Notice period	The Company may terminate Mr Boyd's appointment for cause or by giving him 12 months' notice in writing, or a payment in lieu. For example, if this were to occur in FY11, Mr Boyd would be entitled to a termination payment of \$750,000.

1. As part of the FY09 LTI arrangements and in his capacity as GGM Garage Doors & Openers, PJ Boyd is entitled to a payment equal to 25% of his FY08 fixed remuneration if he is employed by the Company on 31 May 2011.
2. PJ Boyd and the Company agreed to reduce the maximum LTI target from 125% to 100% in July 2010 following the remuneration review. The grant of the performance rights to Alesco shares and issue of Alesco shares if the performance rights vest are subject to shareholder approval in September 2010.

#### Former Managing Director and Chief Executive Officer

Justin Ryan was appointed Managing Director and Chief Executive Officer of Alesco on 1 June 2006 and resigned on 2 May 2010. Under his executive contract, Mr Ryan was entitled to a termination payment of \$1.7 million, together with any accrued statutory entitlements such as annual and long service leave. The termination payment was calculated on the total sum of his FY10 base remuneration of \$1,000,000 plus 70% of the maximum STI amount that he could have received in FY10 (i.e. 70% of FY10 base remuneration). Mr Ryan forfeited his rights to any performance conditions under any LTI plan, including the cash payment under the FY09 LTI arrangements equal to 25% of his FY08 base remuneration as this payment was conditional on him being employed by the Company on 31 May 2011.

In relation to his outstanding LTI arrangements, Mr Ryan acquired four tranches of shares under the Alesco Performance Share Acquisition Plan. To assist him in acquiring the shares, the Company provided Mr Ryan full recourse interest-free loans totalling \$5,239,032 at the time each tranches of shares were offered during 2006-2009. At the date of termination of employment, Mr Ryan owed the Company \$4,971,803. As permitted under the rules of the APSAP, the Board exercised its discretion to extend the repayment of these interest-free loans following his termination of employment. Mr Ryan is required to repay the outstanding loan amounts under the Alesco Performance Share Acquisition Plan by no later than 10 years from the drawdown dates with the first repayment due in 2016 and the last repayment due in 2019. He is not entitled to any loan waiver due to any performance hurdle targets in the relevant measurement period being met. An amount of \$372,394, representing the estimated interest-free benefit of the loans to Mr Ryan, has been included in the remuneration table on page 56.

The Company has a holding lock over these shares preventing Mr Ryan from disposing of them. In addition, any dividends paid by the Company in connection with these shares will be applied to the repayment of the loans (net of any applicable tax).

**DIRECTORS' REPORT (CONTINUED)**

FOR THE YEAR ENDED 31 MAY 2010

**LTI (APSAP) participation of former Managing Director**

YEAR OF ISSUE	NO OF SHARES	ISSUE PRICE PER SHARE	INITIAL LOAN AMOUNT	VESTING PERIOD
2006	150,000	\$9.9879	\$1,498,187	No award to be granted as performance hurdle was not achieved during the relevant measurement period from 1 June 2006 to 31 May 2009.
2007	110,000	\$11.2804	\$1,240,844	No award to be granted as performance hurdle was not achieved during the relevant measurement period from 1 June 2007 to 31 May 2010 and the executive is no longer employed in the business.
2008	183,943	\$6.7956	\$1,250,003	No award to be granted in connection with performance during the relevant measurement period of 1 June 2008 to 31 May 2011 as executive is no longer employed in the business.
2009	257,689	\$4.8508	\$1,249,998	No award to be granted in connection with performance during the relevant measurement period of 1 June 2009 to 31 May 2012 as executive is no longer employed in the business.
<b>TOTAL</b>	701,632		\$5,239,032	

# DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

EXECUTIVES	SHORT-TERM		EMPLOYMENT		CASH PAYMENT ENTITLEMENT		EQUITY			TOTAL		VALUE OF SHARES AS PROPORTION OF REMUNERATION %	
	SALARY AND FEES <sup>2</sup>	STI CASH BONUS <sup>3</sup>	NON-MONETARY BENEFITS <sup>4</sup>	SUPER-ANNUATION BENEFITS <sup>5</sup>	SUBTOTAL <sup>6</sup>	TERMINATION BENEFITS <sup>7</sup>	SHARE-BASED PAYMENT <sup>8</sup>	LONG-TERM BENEFITS <sup>9</sup>	OTHER ACCELERATED SHARE PLAN EXPENSE <sup>10</sup>	PROPORTION OF REMUNERATION ANCE-RELATED %	\$		
<b>Current executives</b>													
<b>PJ Boyd</b>	2010	486,461	248,000	-	26,773	761,234	-	-	114,161	974,449	27.9%	-	
CEO and Managing Director	2009	450,154	-	-	47,764	497,918	-	(120,824)	79,443	456,537	n/c <sup>16</sup>	n/c <sup>16</sup>	
<b>NA Thompson</b>	2010	535,598	-	-	64,402	600,000 <sup>11</sup>	-	10,405	149,368	1,181,152	2.3%	0.9%	
Finance Director	2009	530,057	-	-	13,694	543,751	-	(29,245)	73,726	588,232	n/c <sup>16</sup>	n/c <sup>16</sup>	
<b>J Brennan<sup>12</sup></b>	2010	255,072	60,000 <sup>13</sup>	24,476	38,261	377,809	-	-	175,216	779,254	8.8%	-	
GM, Sales and Marketing, Functional & Decorative Products	2009	379,581	25,000	41,369	56,938	502,888	-	(13,611)	87,126	576,403	2.1%	n/c <sup>16</sup>	
<b>SS Cox</b>	2010	366,563	-	27,366	26,071	420,000	-	21,021	116,593	1,018,709	2.1%	2.1%	
GGM Construction & Mining	2009	357,650	-	27,462	31,555	416,667	-	(17,241)	52,500	451,926	n/c <sup>16</sup>	n/c <sup>16</sup>	
<b>RF Guttentag<sup>14</sup></b>	2010	155,180	-	-	4,820	160,000	-	-	10,221	170,221	4.5%	-	
GGM Functional & Decorative Products													
<b>RK Moriarty<sup>14</sup></b>	2010	41,269	-	-	2,410	43,679	-	-	688	44,367	-	-	
GGM Human Resources													
<b>BJ O'Connor</b>	2010	285,598	-	-	34,402	320,000	-	16,016	92,858	796,177	2.0%	2.0%	
Chief Information Officer	2009	265,879	-	19,178	33,694	318,751	-	(13,838)	33,515	338,428	n/c <sup>16</sup>	n/c <sup>16</sup>	
<b>WL Powell</b>	2010	360,380	-	33,558	26,062	420,000	-	-	119,122	832,626	2.4%	-	
GGM Water Products & Services	2009	347,474	-	33,558	33,683	414,715	-	(16,334)	50,826	449,207	n/c <sup>16</sup>	n/c <sup>16</sup>	
<b>L Rafferty</b>	2010	425,598	-	-	14,402	440,000	-	22,022	121,501	1,065,563	2.1%	2.1%	
GGM Legal & Corporate Affairs	2009	421,307	-	-	13,694	435,001	-	(17,241)	56,065	473,825	n/c <sup>16</sup>	n/c <sup>16</sup>	
<b>Former executives</b>													
<b>JJ Ryan<sup>15</sup></b>	2010	913,129	-	-	21,627	934,756	1,700,000	-	322,688	2,169,099	5,126,543	-	-
CEO and Managing Director	2009	969,640	-	-	13,694	983,334	-	(80,425)	49,391	952,300	n/c <sup>16</sup>	n/c <sup>16</sup>	
<b>Total</b>	2010	3,824,848	308,000	85,400	259,230	4,477,478	1,700,000	69,464	1,207,309	4,534,810	11,989,061	-	-
	2009	3,721,742	25,000	121,567	244,716	4,113,025	-	(308,759)	482,592	-	4,286,858	-	-

**Explanation of the table**

1. This table sets out the actual payments due to executives during the FY10 and FY09 periods as well as other benefits which did not deliver value to executives in these periods. These other benefits are included under the headings "equity" and comprise accounting values for long-term incentive grants to executives which have not yet been realised (and may never be realised) as they are dependent on future market-based and company-based performance hurdles and employment conditions being met. The actual payments to executives relating to the FY10 period appear in the subtotal column. See also the Remuneration Overview on page 36.
2. Salary and fees represents base salary during the period. Base salary changes come into effect on 1 July each year. Amounts disclosed in the table represent the full expense in the relevant financial year.
3. The STI cash bonus is a short-term incentive cash bonus for performance during the relevant financial year using criteria set out on page 42.
4. Non-monetary benefits includes all amounts received as non-monetary benefits including motor vehicles and laptops which are salary sacrificed as part of an individual's salary packages.
5. Superannuation benefits represent superannuation guarantee contribution (SGC) at 9% superannuation capped at the statutory threshold and includes any salary sacrificed amounts.
6. Subtotal equals cash payment entitlements due to executives in respect of FY10 remuneration. See also the Remuneration Overview on page 36.
7. Termination benefits means any termination payment paid to an executive during the period.
8. Share-based payment represents the expected value of tranches of new shares issued by the Company under the LTI plans (APSAP and AMSAP) during 2007-2009.
9. Other long-term benefits includes the expected value of the incentives arising from the FY10 CIP; the value of the shares allocated to executives under the APSAP in 2006 which were purchased on market, long service leave accrual, the 2008 cash LTI and the value of the interest-free benefit from participation in the APSAP. This amount is the value attributable to the FY10 period.
10. In accordance with Australian Accounting Standards, Alesco has accelerated a non-cash accounting expense of \$5.1 million relating to the benefit of interest-free loans granted to participants under the Alesco Performance Share Acquisition Plan (**APSAP**). The table shows \$4,534,810, as this relates to executives. There are other non-KMP participants in the APSAP. Historically, the Company recognised this expense progressively each year which was then off-set by notional interest income in that same year. While the acceleration of the expense impacts the FY10 financial results, this will reverse over the remaining period of the loans with the Company progressively recognising the notional interest income over the remaining period of the loans. As a result, there is an overall net zero impact over the remaining life of the APSAP. For further details refer to page 56.
11. This amount includes the additional one-off payment of \$50,000 to reflect increased duties during December 2009 to May 2010.
12. J Brennan moved to the newly created role of General Manager Sales & Marketing, Functional & Decorative Products division on 3 February 2010 and no longer sits on the Executive Committee. The remuneration for J Brennan is only for the period to 3 February 2010, as J Brennan ceased to be classified as KMP from this date. From FY10 different performance conditions for the LTI program apply to J Brennan to those described on page 44. The LTI incentive has been structured to retain the services of J Brennan and to ensure a smooth transition of his duties to RF Guttentag as well as to improve the revenue performance of FDP division. The maximum LTI he is entitled to over the FY10 and FY11 period is \$365,000 in two equal instalments. J Brennan is also entitled to a severance payment in the range of six to 12 months up until 31 May 2011 if notice to terminate his employment is given by the Company before 31 May 2011.
13. This payment relates to a one-off special project undertaken during FY2009. The award was achieved on completion of the project but was not paid until November 2009.
14. RF Guttentag and RK Moriarty joined Alesco on 3 February 2010 and 19 April 2010 respectively.
15. JJ Ryan resigned from the position of Managing Director and Chief Executive Officer of Alesco on 2 May 2010. In addition to the amount in the subtotal column, JJ Ryan was paid the termination benefit of \$1.7 million plus accrued statutory entitlements. These payments are included under termination benefits and other long-term benefits.
16. n/c means non-calculable.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### Analysis of bonuses included in compensation

The following table sets out the details of the FY10 short-term incentive cash bonuses awarded as compensation to, or forfeited by, each key management personnel.

EXECUTIVES	FY10 STI MAXIMUM ENTITLEMENT \$	FY10 STI AMOUNT ACHIEVED \$	YEAR	% VESTED	% FORFEITED
<b>Current</b>					
PJ Boyd	400,000	248,000 <sup>1</sup>	2010	62	38
J Brennan <sup>2</sup>	352,000	0	2010	0	100
SS Cox	336,000	0	2010	0	100
RF Guttentag	120,000	0	2010	0	100
RK Moriarty	0	0	2010	n/a	n/a
BJ O'Connor	256,000	0	2010	0	100
WL Powell	336,000	0	2010	0	100
L Rafferty	352,000	0	2010	0	100
NA Thompson	440,000	0	2010	0	100
<b>Former</b>					
JJ Ryan	1,000,000	0	2010	0	100
<b>Total</b>					

1. This short-term incentive relates to the performance of the Garage Doors & Openers division in FY10 but will not be paid to PJ Boyd until August 2011.
2. J Brennan received a payment of \$60,000 in FY10. This payment relates to a one-off special project relating to Robinhood undertaken during FY09. The award was achieved on completion of the project but was not paid until November 2009.

### Analysis of LTI incentives

EXECUTIVES	GRANTED			VALUE YET TO VEST				
	NUMBER	\$	DATE	% VESTED IN YEAR	% FORFEITED IN YEAR	FINANCIAL YEAR VESTING	MINIMUM \$	MAXIMUM \$
<b>PJ Boyd</b>								
– AMSP 2006 <sup>1</sup>	20,000		Mar 2007	0	100	2009	–	–
– APSAP 2007 <sup>3</sup>	26,426		Jun 2007	0	100	2010	–	–
– AMSP 2008 <sup>1</sup>	51,504		Sep 2008	n/a	n/a	2011	0	349,712
– 2008 Cash LTI <sup>2</sup>		125,000	Nov 2008	n/a	n/a	2011	0	125,000
– CIP 2009		350,000	Nov 2009	n/a	n/a	2012	0	350,000
<b>Total</b>	<b>97,930</b>	<b>475,000</b>					<b>0</b>	<b>824,712</b>
<b>J Brennan<sup>4</sup></b>								
– APSAP 2007 <sup>3</sup>	18,616		Nov 2007	0	100	2010	–	–
– APSAP 2008 <sup>3</sup>	45,323		Sep 2008	n/a	n/a	2011	0	322,980
– LTI cash bonus		365,000	Nov 2009	n/a	n/a	2011	0	365,000
– 2008 Cash LTI <sup>2</sup>		110,000	Nov 2008	0	100	2011	0	0
– CIP 2009		125,861	Nov 2009	n/a	n/a	2012	0	125,861
<b>Total</b>	<b>63,939</b>	<b>600,861</b>					<b>0</b>	<b>813,841</b>
<b>SS Cox</b>								
– APSAP 2006 <sup>3</sup>	21,025		Oct 2006	0	100	2009	–	–
– APSAP 2007 <sup>3</sup>	23,581		Nov 2007	0	100	2010	–	–
– APSAP 2008 <sup>3</sup>	43,263		Sep 2008	n/a	n/a	2011	0	308,300
– APSAP 2009 <sup>3</sup>	60,609		Nov 2009	n/a	n/a	2012	0	308,304
– 2008 Cash LTI <sup>2</sup>		105,000	Nov 2008	n/a	n/a	2011	0	105,000
<b>Total</b>	<b>148,478</b>	<b>105,000</b>					<b>0</b>	<b>721,604</b>
<b>RF Guttentag<sup>5</sup></b>								
– CIP 2009		112,000	Feb 2010	n/a	n/a	2012	0	112,000
<b>Total</b>		<b>112,000</b>					<b>0</b>	<b>112,000</b>
<b>RK Moriarty<sup>5</sup></b>								
– CIP 2009		30,000	Apr 2010	n/a	n/a	2012	0	30,000
<b>Total</b>		<b>30,000</b>					<b>0</b>	<b>30,000</b>

# DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

## Analysis of LTI incentives (continued)

EXECUTIVES	GRANTED			% VESTED IN YEAR	% FORFEITED IN YEAR	FINANCIAL YEAR VESTING	VALUE YET TO VEST	
	NUMBER	\$	DATE				MINIMUM \$	MAXIMUM \$
<b>BJ O'Connor</b>								
– APSAP 2006 <sup>3</sup>	20,325		Oct 2006	0	100	2009	–	–
– APSAP 2007 <sup>3</sup>	18,927		Nov 2007	0	100	2010	–	–
– APSAP 2008 <sup>3</sup>	32,963		Sep 2008	n/a	n/a	2011	0	234,900
– APSAP 2009 <sup>3</sup>	46,178		Nov 2009	n/a	n/a	2012	0	234,897
– 2008 Cash LTI <sup>2</sup>		80,000	Nov 2008	n/a	n/a	2011	0	80,000
<b>Total</b>	<b>118,393</b>	<b>80,000</b>					<b>0</b>	<b>549,797</b>
<b>WL Powell</b>								
– APSAP 2006 <sup>3</sup>	21,025		Oct 2006	0	100	2009	–	–
– APSAP 2007 <sup>3</sup>	22,340		Nov 2007	0	100	2010	–	–
– APSAP 2008 <sup>3</sup>	43,263		Sep 2008	n/a	n/a	2011	0	308,300
– 2008 Cash LTI <sup>2</sup>		105,000	Nov 2008	n/a	n/a	2011	0	105,000
– CIP 2009		294,000	Nov 2009	n/a	n/a	2012	0	294,000
<b>Total</b>	<b>86,628</b>	<b>399,000</b>					<b>0</b>	<b>707,300</b>
<b>L Rafferty</b>								
– APSAP 2006 <sup>3</sup>	21,025		Oct 2006	0	100	2009	–	–
– APSAP 2007 <sup>3</sup>	23,581		Nov 2007	0	100	2010	–	–
– APSAP 2008 <sup>3</sup>	47,384		Sep 2008	n/a	n/a	2011	0	337,667
– APSAP 2009 <sup>3</sup>	63,495		Nov 2009	n/a	n/a	2012	0	322,985
– 2008 Cash LTI <sup>2</sup>		110,000	Nov 2008	n/a	n/a	2011	0	110,000
<b>Total</b>	<b>155,485</b>	<b>110,000</b>					<b>0</b>	<b>770,652</b>
<b>NA Thompson<sup>6</sup></b>								
– APSAP 2006 <sup>3</sup>	25,931		Oct 2006	0	100	2009	–	–
– APSAP 2007 <sup>3</sup>	40,000		Nov 2007	0	100	2010	–	–
– APSAP 2008 <sup>3</sup>	30,000		Sep 2008	n/a	n/a	2011	0	213,785
– APSAP 2009 <sup>3</sup>	30,000		Nov 2009	n/a	n/a	2012	0	152,603
– 2008 Cash LTI <sup>2</sup>		137,500	Nov 2008	n/a	n/a	2011	0	137,500
– CIP 2009		239,476	Nov 2009	n/a	n/a	2012	0	239,476
<b>Total</b>	<b>125,931</b>	<b>376,976</b>					<b>0</b>	<b>743,364</b>
<b>Former Executive</b>								
<b>JJ Ryan<sup>7</sup></b>								
– APSAP 2006 <sup>3</sup>	150,000		Oct 2006	0	100	2009	–	–
– APSAP 2007 <sup>3</sup>	110,000		Nov 2007	0	100	2010	–	–
– APSAP 2008 <sup>3</sup>	183,942		Sep 2008	0	100	2011	0	0
– APSAP 2009 <sup>3</sup>	257,689		Nov 2009	0	100	2012	0	0
– 2008 Cash LTI <sup>2</sup>		250,000	Nov 2008	0	100	2011	0	0
<b>Total</b>	<b>701,631</b>	<b>250,000</b>					<b>0</b>	<b>0</b>

- The share price used to value shares under the AMSP is \$6.79, the price used on the grant date.
- As previously reported in FY09, the Board modified the FY09 long-term incentive arrangements by allowing the incentive to comprise a mix of shares issued under the rules of the incentive share plans and up to 25% of the total entitlement in cash (**2008 Cash LTI**). Under this arrangement, the Company will pay those executives participating in this arrangement an amount in cash equal to 25% of the executive's fixed annual remuneration as at 31 May 2008. This payment is conditional on the executive being employed by Alesco on 31 May 2011. This payment does not have any performance conditions attached. However, senior executives may elect to, or the Board may otherwise determine that the executives use the payment to repay any loan amounts outstanding under the APSAP. These arrangements were one-off in nature and apply only in relation to FY09 and to those executives who were employed as at 31 May 2008.
- Ownership in the shares issued under the APSAP vest immediately to executives upon grant. The performance hurdles for the 2006 and 2007 grant under the APSAP were not met and therefore no loan waivers have been granted in relation to the outstanding loan balances. The performance periods for 2008 and 2009 LTI programs have not yet ended, therefore no benefits have vested or forfeited for these years. The maximum value for the APSAP grants has been calculated assuming a maximum loan waiver equal to 53.5% of the initial loan amount for each tranche and taking into account fringe benefits tax.
- J Brennan moved to the newly created role of General Manager Sales & Marketing, Functional & Decorative Products division on 3 February 2010 and no longer sits on the Executive Committee. The remuneration for J Brennan is only for the period to 3 February 2010, as J Brennan ceased to be classified as KMP from this date. From FY10 different performance conditions for the LTI program apply to J Brennan to those described on page 44. The LTI incentive has been structured to retain the services of J Brennan and to ensure a smooth transition of his duties to RF Guttentag as well as to improve the revenue performance of FDP division. The maximum LTI he is entitled to over the FY10 and FY11 period is \$365,000 in two equal instalments. J Brennan is also entitled to a severance payment in the range of six to 12 months up until 31 May 2011 if notice to terminate his employment is given by the Company before 31 May 2011. J Brennan is no longer entitled to the 2008 Cash LTI.
- RF Guttentag and RK Moriarty joined Alesco on 3 February 2010 and 19 April 2010 respectively.
- NA Thompson participated in the APSAP and CIP in 2009 to make up the shortfall in value as only 30,000 shares were approved by shareholders in 2006.
- JJ Ryan does not have the benefit of any future loan waivers relating to the performance hurdles as he is no longer employed by the Company.

# DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

## Senior Executive Performance Share Acquisition Plan

	TOTAL SHARES HELD AT 1 JUNE 2009	CARRYING VALUE OF LOANS HELD AT 1 JUNE 2009 <sup>1</sup>	SHARES GRANTED DURING YEAR	PRESENT VALUE OF LOAN GRANTED DURING THE YEAR <sup>1</sup>	LOANS ADJUST- MENTS <sup>2</sup>	REPAY- MENTS MADE	UNWIND OF INTEREST- FREE ELEMENT OF LOAN <sup>3</sup>	TOTAL SHARES HELD AT 31 MAY 2010	VALUE OF LOANS FORGIVEN DURING YEAR	CARRYING VALUE OF LOANS AT 31 MAY 2010 <sup>4</sup>	FACE VALUE OF LOANS AT 31 MAY 2010
	NUMBER	\$	NUMBER	\$	\$	\$	\$	NUMBER	\$	\$	\$
<b>Executive Directors</b>											
PJ Boyd	26,426	236,071	–	–	(99,953)	(2,828)	25,209	26,426	–	158,499	308,869
NA Thompson	95,931	654,105	30,000	74,475	(290,643)	(11,870)	77,447	125,931	–	503,514	1,001,392
<b>Executives<sup>4</sup></b>											
J Brennan	63,939	363,563	–	–	(152,726)	(6,841)	39,272	63,939	–	243,268	501,626
SS Cox	87,869	544,506	60,609	150,461	(264,412)	(12,645)	74,833	148,478	–	492,743	1,018,310
BJ O'Connor	72,215	453,627	46,178	114,636	(216,892)	(10,198)	61,098	118,393	–	402,271	824,339
WL Powell	86,628	535,285	–	–	(220,688)	(9,269)	57,317	86,628	–	362,645	714,320
L Rafferty	91,990	563,486	63,495	157,625	(274,138)	(13,240)	77,740	155,485	–	511,473	1,059,714
<b>Former Executive</b>											
JJ Ryan <sup>5</sup>	443,942	2,829,486	257,689	639,709	(1,328,095)	(61,288)	372,394	701,631	–	2,452,206	4,971,803

1. Amounts shown are at present value, and are therefore net of any performance discount expected to be achieved and the interest-free element of the loan.
2. There is change in accounting treatment in relation to the interest-free benefit associated with these loans compared to prior years resulting from the Board exercising its discretion to extend the repayment of the interest-free loans made available to Mr Ryan. In accordance with Accounting Standard requirements, the estimated interest-free benefit associated with these loans over the 10-year term has been recognised in the FY10 financial statements and applied to all plan participants. The loan adjustments represent the present value adjustments associated with a change to assumptions that loans would be repaid in 10 years. Previously, the Group accounted for this by using an assumption of five years. The acceleration of the non-cash accounting expense impacts the FY10 financial results, this will reverse over the remaining period of the loans with the Company progressively recognising the notional interest income over the remaining period of the loans. As a result, there is zero financial impact over the life of the APSAP.
3. This amount is the value of the notional interest income recognised by the Company on the loan balance.
4. RF Guttentag and RK Moriarty were appointed in February and April 2010 respectively and do not have any loans under the APSAP as at 31 May 2010.
5. JJ Ryan resigned from the Company on 2 May 2010 and prior to the performance conditions under the APSAP being met. As permitted under the rules of the APSAP, the Board exercised its discretion to extend the repayment of these interest-free loans following his termination of employment. Mr Ryan is required to repay the outstanding loan amounts under the Alesco Performance Share Acquisition Plan by no later than 10 years from the drawdown dates with the first repayment due in 2016 and the last repayment due in 2019. He is not entitled to any loan waiver due to any performance hurdle targets in the relevant measurement period being met. Historically, the Company has recognised this non-cash accounting expense progressively each year which has been off-set by notional interest income in that same year. See page 50.

# DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

## Senior Executive Performance Share Acquisition Plan

	TOTAL SHARES HELD AT 1 JUNE 2008	CARRYING VALUE OF LOANS HELD AT 1 JUNE 2008 <sup>1</sup>	SHARES GRANTED DURING YEAR	PRESENT VALUE OF LOAN GRANTED DURING THE YEAR <sup>1</sup>	LOANS ADJUSTMENTS	REPAYMENTS MADE	UNWIND OF INTEREST-FREE ELEMENT OF LOAN <sup>2</sup>	SHARES SOLD ON RETIREMENT <sup>3</sup>	TOTAL SHARES HELD AT 31 MAY 2009	VALUE OF LOAN FORGIVEN DURING YEAR	CARRYING VALUE OF LOANS AT 31 MAY 2009 <sup>1</sup>	FACE VALUE OF LOANS AT 31 MAY 2009
	NUMBER	\$	NUMBER	\$	\$	\$	\$	NUMBER	NUMBER	\$	\$	\$
<b>Directors</b>												
PJ Boyd	26,426	176,819	–	–	36,818	(7,271)	29,705	–	26,426	–	236,071	311,697
NA Thompson	65,931	370,946	30,000	126,586	82,945	(18,141)	91,769	–	95,931	–	654,105	867,737
<b>Executives</b>												
J Brennan	18,616	110,358	45,323	191,242	23,253	(4,012)	42,722	–	63,939	–	363,563	509,577
SS Cox	44,606	248,294	43,263	182,550	56,196	(12,273)	69,739	–	87,869	–	544,506	736,954
BJ O'Connor	39,252	217,092	32,963	139,088	49,492	(10,800)	58,755	–	72,215	–	453,627	610,536
WL Powell	43,365	240,937	43,263	182,550	54,646	(10,907)	68,059	–	86,628	–	535,285	724,614
L Rafferty	44,606	248,294	47,384	199,938	56,196	(12,273)	71,331	–	91,990	–	563,486	764,954
<b>Former Executives</b>												
JJ Ryan	260,000	1,426,195	183,942	776,149	328,180	(71,537)	370,499	–	443,942	–	2,829,486	3,783,088
A Sullivan <sup>2</sup>	37,930	214,806	–	–	–	(116,418)	–	(37,930)	–	(98,388)	–	–

1. Amounts shown are at present value, and are therefore net of any performance discount expected to be achieved and the interest-free element of the loan.

2. This amount is the value of the notional interest income recognised by the Company on the loan balance.

3. During the prior year, A Sullivan resigned from the Company prior to the performance conditions under the APSAP being met. As permitted under the rules of the APSAP, the senior executive was required to repay the outstanding loan amount up to the market value of the shares as at the date of termination, with the balance of the loan (\$98,388) being waived. The shares acquired by the senior executive under the APSAP were sold and the proceeds of sale were applied to repay the outstanding loan amount.

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

### SECTION 5 – NON-EXECUTIVE DIRECTORS' REMUNERATION

Fees payable to non-executive directors are determined within the maximum aggregate amount approved by shareholders. The current maximum aggregate amount of \$1,000,000 per annum (excluding any superannuation contributions required by law) was last approved by shareholders at the 2006 annual general meeting. The remuneration of the non-executive directors is not linked to the performance of the Company in order to maintain independence and impartiality. Non-executive directors do not participate in any incentive or equity-based plans.

The directors' fees are reviewed annually through the Human Resources Committee. A formal review was last conducted in January 2008 through external and independent compensation advisers Godfrey Remuneration Group based on available data on fees payable to directors of companies of a similar size.

The non-executive directors' fees were last increased on 1 February 2008. There was no increase in non-executive directors' fees during FY10, although the Board committees were restructured to reallocate workloads following the retirement of the former Chairman. Effective 1 October 2009, the Chairman's fees were adjusted down from \$280,000 to \$250,000 following the new appointment.

The Chairman does not participate in any discussions relating to the determination of his own fees.

Total (annualised) fees paid to non-executive directors in FY10 amounted to \$776,154. In addition, the former Chairman was entitled to receive a retirement benefit payment of \$257,850. This entitlement was frozen at 31 May 2004 following the decision by the Board in 2003 to discontinue the policy of accruing retirement benefit entitlements for non-executive directors in preference for payment of directors' fees only. No current non-executive directors receive, or are entitled to receive, any retirement benefits. There are no retirement benefit plans currently in place with the Group.

Currently the non-executive directors' fees are as follows:

ROLE	DIRECTORS' FEES (ANNUALISED) <sup>1</sup>
Chairman's fees	\$250,000 <sup>2</sup>
Non-executive directors' base fees	\$100,000
Chairman of the Audit & Compliance Committee	\$27,250
Audit & Compliance Committee members	\$13,625
Chairman of the Human Resources Committee	\$10,900
Human Resources Committee members	\$7,630
Chairman of the Safety, Health and Environment Committee	\$10,900
Safety, Health and Environment Committee members	\$7,630
Chairman of the Nominations Committee	nil
Nominations Committee members	nil

1. Inclusive of superannuation.

2. Inclusive of all Committee fees.

# DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

## Details of non-executive directors compensation

DIRECTORS <sup>1</sup>		SHORT-TERM			POST-EMPLOYMENT			EQUITY		OTHER BENEFITS			TOTAL	
		SALARY AND FEES \$	STI CASH BONUS \$	NON-MONETARY BENEFITS \$	SUPER-ANNUATION BENEFITS \$	RETIREMENT BENEFITS \$	SHARE-BASED PAYMENT \$	TERMINATION BENEFITS \$	LONG-TERM BENEFITS \$	OTHER BENEFITS \$	PROPORTION OF REMUNERATION ANCE-RELATED %	PROPORTION OF REMUNERATION RELATED %	VALUE OF SHARES AS OF REMUNERATION %	
<b>Non-executive</b>														
MB Luby <sup>2</sup>	2010	184,837	-	-	25,905	-	-	-	-	-	-	-	-	210,742
Chairman	2009	83,432	-	-	37,823	-	-	-	-	-	-	-	-	121,255
RM Aitken	2010	107,743	-	-	9,697	-	-	-	-	-	-	-	-	117,440
	2009	105,743	-	-	9,067	-	-	-	-	-	-	-	-	114,810
JW Hall	2010	116,743	-	-	10,507	-	-	-	-	-	-	-	-	127,250
	2009	116,743	-	-	10,507	-	-	-	-	-	-	-	-	127,250
RV McKinnon	2010	104,243	-	-	9,382	-	-	-	-	-	-	-	-	113,625
	2009	94,515	-	-	8,506	-	-	-	-	-	-	-	-	103,021
EJ Pope	2010	87,530	-	-	31,000	-	-	-	-	-	-	-	-	118,530
	2009	75,048	-	-	43,482	-	-	-	-	-	-	-	-	118,530
<b>Former</b>														
SP Wareing <sup>3</sup>	2010	60,473	-	-	28,094	-	-	-	-	-	-	-	-	88,567
	2009	202,140	-	-	77,860	-	-	-	-	-	-	-	-	280,000
Total	2010	661,569	-	-	114,585	-	-	-	-	-	-	-	-	776,154
	2009	677,621	-	-	187,245	-	-	-	-	-	-	-	-	864,866

1. Non-executive directors do not participate in any STI and LTI arrangements.

2. MB Luby was appointed Chairman on 23 September 2009.

3. SP Wareing retired as a non-executive director on 23 September 2009. He received a retirement benefit payment of \$257,850. This entitlement was frozen at 31 May 2004 following the decision by the Board in 2003 to discontinue the policy of retirement benefits for non-executive directors in preference for payment of directors fees only.