

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2009

REMUNERATION REPORT

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 for the year ended 31 May 2009.

This report provides a summary of the remuneration policies and practices adopted by Alesco during the FY09 period for directors and key management personnel as defined by the *Accounting Standards AASB124 (Related Party Disclosures)*. For the purposes of this report, the remuneration arrangements disclosed in this report apply to the non-executive directors, executive directors and other senior executives set out below and include the five highest remunerated executives of the Company and the Group during the reporting period.

NAME	POSITION
Non-executives directors	
SP Wareing	Chairman
MB Luby	Deputy Chairman
RM Aitken	Non-executive Director
JW Hall	Non-executive Director
RV McKinnon	Non-executive Director - appointed 1 July 2008
EJ Pope	Non-executive Director
BJ Jackson	Non-executive Director - retired 16 September 2009
Executive directors	
JJ Ryan	Managing Director
NA Thompson	Finance Director
Senior executives	
P Boyd	Group General Manager Garage Doors & Openers
J Brennan	Group General Manager Functional & Decorative Products
S Cox	Group General Manager Construction & Mining
B O'Connor	Group Chief Information Officer
W Powell	Group General Manager Water Products & Services
L Rafferty	Group General Manager Legal & Corporate Affairs
Former senior executives	
NM Schoerie	Group General Manager Scientific & Medical resigned on 30 April 2009 with the sale of the division by Alesco
A Sullivan	Group General Manager Strategy & Business Development – resigned on 3 September 2008

Introduction

Over the past five years the Alesco Group has undergone considerable change and development. Alesco's Group annual revenues in FY2005 were approximately \$633 million, in FY2008 approximately \$1,071 million and in FY2009 were approximately \$1,011 million (including 11 months of the Scientific & Medical division which was sold on 30 April 2009). Over the same period Alesco's market capitalisation has fluctuated. At the beginning of FY2009 Alesco's market capitalisation was \$710 million and at year end it was \$302 million. Up until FY2009, the Company has achieved record earnings per share and dividends per share growth since 2001.

The Board has the responsibility of balancing the short term performance of the business against the longer term as well as reflect developing and changing remuneration practices and current remuneration and regulatory trends.

Alesco's financial and share price performance over the year has deteriorated significantly and shareholders have suffered through a significant decline in the value of their shares and a reduced annual dividend following the cancellation of the interim dividend earlier in the year. The Board believes that the deteriorating economic and financial climate contributed to the overall fall in the Company's performance and this creates a

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challenging environment in which to properly motivate and remunerate senior executives. It is, however, confident the actions taken by the Group during this period will generate reasonable returns for shareholders in the longer term.

With this background, and in light of the dramatic and rapid changes to the economic and financial environment during FY2009, the Board took the following actions.

In relation to the financial period ended 31 May 2009:

- no short term incentive bonuses were paid to executive directors or senior management, even though some of the incentives were earned;
- non-executive directors fees were frozen at the levels set in February 2008.

In addition, long term incentive bonuses which were granted in 2006 to executive directors and senior management that were due to vest in 2009 were either forfeited or awards were not granted, as the case may be, as the performance hurdles were not met.

In relation to the FY2010 financial period:

- All executive and management salaries have been frozen at levels set at July 2008;
- Salaries and wages have been frozen across the organisation, except in accordance with award or enterprise agreements, promotions or limited special circumstances.

In addition, the Board has commissioned an independent review of the overall remuneration strategy and framework in place for the senior executives and managers through Egan Associates, an external and independent remuneration consultant. This review includes analysing the effectiveness of the current remuneration structure (with particular focus on short and long term incentives), determining how the remuneration structure can best be 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 and retaining senior executive talent.

This review has not yet concluded as a number of factors, including the Productivity Commission's review of executive remuneration, the Federal Government's proposed tax changes to share incentive schemes and the proposed amendments to the Corporations Act on termination payments to executives have not yet been finalised. These matters may potentially impact the overall remuneration practices of the Group, particularly the

operation of the long term incentive programs in place at Alesco. Once these matters have been clarified, Alesco will determine the impact, if any, on the current remuneration arrangements in place and whether any changes are required. In the meantime, all long term incentives plans have been suspended for the time being.

Human Resources Committee

The Board has established a Human Resources Committee which advises the Board on remuneration policies and practices and makes recommendations regarding the level and form of executive remuneration. In doing so, 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. A copy of the Human Resources Committee charter can be found in the Corporate Governance section on the Alesco website.

Principles of the compensation framework

The Company'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 and recognition of individual performance and experience and divisional and Group performance.

In FY2009, compensation packages included a mix of fixed and variable compensation and short-term and long-term performance-based incentives based on factors that are under the executives control and maximise the longer term performance of the Company. Most senior executives had a significant proportion of their rewards 'at risk'. In addition to cash salaries, the Group also provided non-cash benefits and contributed to a post-employment defined contribution superannuation plan on behalf of directors and senior executives.

Remuneration Mix Assuming Maximum Bonus Achieved

Senior executives



Managing Director



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Annual incentives

Annual incentives were set in May 2008 and were heavily weighted towards the following metrics designed to deliver value to shareholders as well as drive superior individual and business performance:

ANNUAL INCENTIVES	
Corporate executives	<ul style="list-style-type: none"> Group's earnings per share (before significant items and amortisation of intangibles) Group's return on equity (before significant items and amortisation of intangibles) non-financial measures
Divisional executives	<ul style="list-style-type: none"> return on net operating assets working capital segment earnings before interest, tax and amortisation of intangibles and significant items (EBITA) non-financial measures

REMUNERATION OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES		
The remuneration structure for executive directors and senior executives has two components:		
Fixed compensation (known as FAR)	Base salary Superannuation Other short term benefits (including fringe benefits tax (FBT) charges related to employee benefits and motor vehicles)	Paid annually
Performance linked compensation	Short term incentives – paid in cash following the release of the financial results	Measured over a 12 month period
	Long term incentives – paid in a mix of shares under the rules of the incentive share plans and in cash	Measured over a three year period with the cash component paid after 31 May 2011 provided the executive is still employed at that time

Fixed compensation

The fixed compensation part of the remuneration package for all executive directors and senior 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 15-20 companies listed on the Australian Stock 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 compensation 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 compensation is also reviewed on promotion or change of role.

Performance-linked compensation

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for performance.

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SHORT-TERM INCENTIVE BONUS					
Purpose of the short term incentive bonus	To drive individual, divisional and group performance to deliver 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 ending 31 May				
Performance measures used	Each year the Human Resources Committee recommends to the Board the key performance indicators (KPIs) for the key management personnel. 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"> • Group's earnings per share (before significant items and amortisation of intangibles) • Group's return on equity (before significant items and amortisation of intangibles) return on capital • non-financial measures </td> </tr> <tr> <td>Divisional executives</td> <td> <ul style="list-style-type: none"> • return on net operating assets • working capital • segment earnings before interest, tax and amortisation of intangibles and significant items (EBITA) • non-financial measures </td> </tr> </table>	Corporate executives	<ul style="list-style-type: none"> • Group's earnings per share (before significant items and amortisation of intangibles) • Group's return on equity (before significant items and amortisation of intangibles) return on capital • non-financial measures 	Divisional executives	<ul style="list-style-type: none"> • return on net operating assets • working capital • segment earnings before interest, tax and amortisation of intangibles and significant items (EBITA) • non-financial measures
Corporate executives	<ul style="list-style-type: none"> • Group's earnings per share (before significant items and amortisation of intangibles) • Group's return on equity (before significant items and amortisation of intangibles) return on capital • non-financial measures 				
Divisional executives	<ul style="list-style-type: none"> • return on net operating assets • working capital • segment earnings before interest, tax and amortisation of intangibles and significant items (EBITA) • non-financial measures 				
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"> • safety, health and environment performance • people development and training • operational improvements • restructuring and rationalisation • growth and acquisitions • strategic outcomes • other discretionary performance targets 				
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 performance measures are achieved:</p> <ul style="list-style-type: none"> • senior executives can earn up to 60% - 80% of FAR as a short-term bonus; • the Chief Executive can earn up to 100% of FAR as a short-term bonus. <p>To achieve the maximum bonus the executive must have achieved stretch performance.</p>				
Financial performance	<p>The measurement of the STI is calculated as follows:</p> <ul style="list-style-type: none"> • 0% of maximum for achieving 95% of budget/target performance • 50% of maximum for achieving 100% of budget/target performance • 100% of maximum for achieving 105-115% of budget/target performance depending on the financial measure <p>(pro-rata basis between these points)</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 pre-determined 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 bonus 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 short term incentives bonuses is at the discretion of the Board and occurs in August, after these reviews are completed and the audited year-end financial results have been released to the market.</p>				
Service condition	New managers 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.				

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In relation to FY2009, the Board determined that no short term incentive bonuses would be paid to executive directors and senior executives even if some performance hurdles had been met, due to the overall financial and share performance of the Company.

Long-term incentive

Long-term incentive awards are currently provided through Alesco's senior executive and management share plans under which participants receive shares in the Company. The Company has in place two key long-term incentive plans: the Alesco Performance Share Acquisition Plan (APSAP) and the Alesco Management Share Plan (AMSP).

These plans aim:

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

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 FY2009 are identified in Table 9. The long term incentive has currently been suspended for the time being for the reasons noted on page 34.

In FY2009, the Board modified the 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 executives an amount in cash equal to 25% of the executive's fixed annual remuneration as at 31 May 2008 provided the executive is still employed by Alesco on 31 May 2011. These payments do not have performance conditions attached but 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.

A summary of the key operating features for the APSAP and the offers made in FY2009 is as follows:

PLAN	ALESCO PERFORMANCE SHARE ACQUISITION PLAN (APSAP)
Operation of the APSAP for FY2009	Loans were provided to the key senior executives to fund the acquisition of ordinary fully paid shares in the Company at \$6.79 per share (the issue price at the time of allocation). Ownership in the shares vested immediately with the senior executive and while the loans are interest-free, they are full recourse loans.
Participation	Senior executives and senior managers approved by the Board. Participation in the plan was voluntary. Participants could also elect to participate in the AMSP rather than the APSAP.
Grant timing	Offers were made following release of the FY2008 results, with grants made on 1 September 2008 for all senior executives other than Mr Ryan who received his grant on 16 September 2008, following shareholder approval at the 2008 annual general meeting.
Reasons why performance conditions were chosen	The performance condition is driven around earnings per share growth (before amortisation of intangibles and significant items). This measure was chosen principally because it is a measure of profitability, is a determinant of dividends and, overall, is a measure of Alesco's long term success as it contains clear links to shareholder value creation and is a key driver of business success.
Achievement levels	Loans provided: <ul style="list-style-type: none"> • for executives were in amounts up to 60% - 80% of FAR; • for the Chief Executive in amounts up to 125% of FAR.
Restriction period	The shares issued under the APSAP have a three-year trading lock which will only be released if the loan relating to the shares has been fully repaid. 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 2009 allocation of shares requires Alesco's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) (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

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PLAN	ALESICO PERFORMANCE SHARE ACQUISITION PLAN (APSAP)		
Measurement	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%
	* assumes a highest marginal tax rate of 46.5% (inclusive of Medicare Levy)		
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.		
Treatment of awards on cessation of employment	<p>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 allowed to remain in place for the term of the loan 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 (TPD), 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	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.		
Other restrictions	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.		

The following summarises the key dates and current status of the current outstanding LTI awards:

APSAP					
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 compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) (EPS Growth) for the period from 1 June 2006 to 31 May 2009 to be in the range of 5% - 12%.	No awards will be granted as the performance hurdle was not met. The full loan amount is payable by the participant.	31 May 2016
2007	\$11.28 & \$12.28	1 June 2007 – 31 May 2010	Alesco's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) (EPS Growth) for the period from 1 June 2007 to 31 May 2010 to be in the range of 5% - 12%.	Performance hurdle testing window has not yet been reached. Based on the FY2010 budget it is unlikely that any awards will be granted.	31 May 2017
2008	\$6.79	1 June 2008 – 31 May 2011	Alesco's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) (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 but it is unlikely that any awards will be granted.	31 May 2018

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The Alesco Management Share Plan (**AMSP**) has been in place since 2002. Senior management may participate in two ways:

- Remuneration Shares: senior management may elect to purchase Alesco shares with pre-tax remuneration (subject to local legislation) or bonuses
- Incentive Shares: incentive shares may be offered at the discretion of the Board and are subject to the satisfaction of specific performance conditions.

A summary of the operation of this plan is set out as follows:

PLAN	ALESCO MANAGEMENT SHARE PLAN (AMSP)
Operation of the AMSP for FY09	Incentive shares were allocated to senior management as approved by the Board. These shares were issued as a fresh issue of shares and may be held by the Plan trustee on trust for the participant for up to a maximum period of 10 years.
Participation	Senior Executives and Senior managers approved by the Board. Participation in the plan is voluntary and the number of incentive shares offered to participants varied depending on the type of role, level of seniority.
Grant timing	Offers were made on an annual basis following release of the FY2008 results, with grants made on 1 September 2008.
Restriction period	The shares issued under the AMSP are held by a trustee and have a three-year trading lock. This trading lock will only be released and the shares transferred to the participant once the 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.
Reasons why performance conditions were chosen	The performance condition is driven around earnings per share growth (before amortisation of intangibles and significant items). 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 and is a key driver of business success.
Performance conditions	For senior executives, the performance hurdle for the 2009 allocation of shares requires Alesco's compound annual growth rate in earnings per share (before amortisation of intangibles and significant items) (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. In the case of senior managers and managers, the performance hurdle for the 2009 allocation of shares requires Alesco's compound annual growth rate in earnings per share growth (before amortisation of intangibles and significant items) (EPS Growth) for the period from 1 June 2008 to 31 May 2011 to equal or exceed 3%. In determining this compound annual growth rate, the base number to be used is 75.02 cents per share. If this performance hurdle is achieved, the Incentive Shares will vest on the date after the FY2011 audited financial results are released to the Australian Stock Exchange.
Treatment of dividends	Participants are entitled to receive any dividends paid by the Company during the vesting period.
Sales restrictions post vesting	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.
Treatment of awards on cessation of employment	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 the incentive shares. Any vested shares credited to the participants account will be released to the participant.
Other restrictions	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.

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The following summary sets out the key dates and current status of the current outstanding AMSP awards:

ALESCO MANAGEMENT SHARE PLAN (AMSP)					
YEAR OF GRANT	ISSUE PRICE	VESTING PERIOD	PERFORMANCE HURDLE	PERFORMANCE STATUS	FINAL RELEASE DATE
2006	\$9.90	1 June 2006 – 31 May 2009	EPS Growth equals or exceeds 5% compounded annually over the three year from 1 June 2006 to 31 May 2009.	The performance hurdle was not met and the incentive shares will be forfeited	1 June 2016
2007	\$11.28	1 June 2007 – 31 May 2010	EPS Growth equals or exceeds 5% compounded annually over the three year from 1 June 2007 to 31 May 2010.	Performance hurdle testing window has not yet been reached.	1 June 2017
2008	\$6.79	1 June 2008 – 31 May 2011	EPS Growth equals or exceeds 3% compounded annually over the three year from 1 June 2008 to 31 May 2011.	Performance hurdle testing window has not yet been reached.	1 June 2018

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Shares allocated in FY 2002 – FY 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 Alesco Group Employee Share Plans (ESP) were last approved by the Company's shareholders in 2006. Under the ESP eligible employees may acquire up to \$1,000 worth of Alesco ordinary shares. Employees other than New Zealand employees can receive \$500 worth of Alesco ordinary shares for no consideration. 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. In FY2009, 2035 eligible employees elected to participate in the ESP (FY2008: 2224).

Short-term and long-term incentive structure and performance hurdles

The Board considers the performance-linked compensation structure in place is aligned with shareholders interests and is, overall, generating the desired outcomes of motivating senior management to strive for stretch performance and rewarding those executives when stretch performance is achieved. The remuneration and incentive framework which has been put in place encourages executives to focus on maximising short-term operating and financial performance as well as long-term strategic growth and shareholder value.

The performance hurdle for the short term incentives is driven around a combination of individual, business and Group performance. 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.

The performance hurdle for the long term incentives is driven around earnings per share growth (before amortisation of intangibles and significant items). Earnings per share 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 determinant of dividends and, overall, is a measure of

Alesco's long term success with clear links to shareholder value creation and is a key driver of business success.

In assessing the Group's performance, the Human Resources Committee considers the results shown in Table 6 in respect of the Group's performance over the current year and the previous five financial years.

Alesco's financial and share price performance over the year has deteriorated significantly and shareholders have suffered through a significant decline in the value of their shares and a reduced annual dividend following the suspension of the interim dividend earlier in the year. The performance-linked element of the remuneration structure appears to be appropriate in the circumstances as all senior executives have experienced a substantially reduced overall remuneration package, including the actual and probable loss of any awards under the long term incentives.

The performance-linked component of compensation paid to key management personnel in FY2009 is approximately negative 18% of the total remuneration payments, down from positive 40% in the prior year (see Table 7).

At year end a review was conducted on the likelihood of awards vesting under the APSAP and shares vesting under the AMSP. This review has determined that no awards are likely to be awarded under the APSAP and shares issued under the AMSP, which as at 31 May 2009 have not vested, will not vest. As a result, certain share based payments and other long term benefits which had accrued to key management personnel have been reversed in the current year. These amounts, while they had represented prior years' remuneration for the key management personnel were not cash based.

Senior 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.

Consequences of performance on shareholders' wealth

The Company believes its remuneration policies and practices have been appropriate and consistent with creating shareholder value over the longer term. The Company's financial performance over the past five years is set out in Table 6 and demonstrates sustainable long term performance over a longer

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period of time. Up until FY2009, the Company has achieved record earnings per share and dividends per share growth since 2001. The Board believes that the deteriorating economic and financial climate contributed to the overall fall in performance of the Group in FY2009 but is confident the actions taken by the Group during this period will generate reasonable returns for shareholders in the longer term.

Table 6

	CONSOLIDATED					
	2009	2008	2007	2006	2005	2004
Return on equity	7.6%	13.6%	15.8%	14.5%	13.3%	15.5%
Earnings ¹ per share	48.1cps	83.8cps	74.6cps	66.5cps	60.3cps	54.2cps
Dividends per share	7.0 ² cps	67.0cps	63.5cps	56.0cps	45.0cps	33.0cps

1. (Before amortisation of intangibles and significant items)
2. No interim dividend was paid.

NON-EXECUTIVE DIRECTORS

Fees payable to non-executive directors are determined within the maximum aggregate amount approved by shareholders. The current maximum aggregate amount is \$1,000,000 per annum (excluding any superannuation contributions required by law), 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 plans.

The directors' fees are reviewed annually through the Human Resources Committee. A 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. The Board resolved to freeze non-executive directors' fees for the time being effective from 1 March 2009.

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

ROLE	DIRECTORS FEES
Chairman's fees (inclusive of superannuation and Committee fees)	\$280,000 ¹
Non-executive directors base fees (inclusive of superannuation)	\$100,000
Chairman of the Audit & Compliance Committee	\$25,000
Audit & Compliance Committee members	\$12,500
Chairman of the Human Resources Committee members \$7,000 with the Chairman receiving \$10,000	\$10,000 ¹
Human Resources Committee members	\$7,000
Chairman of the Safety, Health and Environment Committee	\$10,000
Safety, Health and Environment Committee members	\$7,000

¹ While the Chairman of the Board is the chairman of the Human Resources Committee, this fee is not paid.

Directors' retirement benefits ceased to accrue at 31 May 2004. The Chairman is the only director entitled to receive directors' retirement benefits in relation to this scheme and will receive \$252,349 in September 2009 when he retires from office.

Executive contracts

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

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2009

Employment arrangements with Managing Director

Justin Ryan was appointed Managing Director of Alesco on 1 June 2006. A summary of the key terms of Mr Ryan's contract are available on the Alesco website. Mr Ryan has no fixed term contract and the key details of Mr Ryan's remuneration package are:

Fixed remuneration	\$1,000,000 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 pre-determined key performance indicators both financial and non-financial measures.	
LTI	An annual grant of Alesco shares equivalent to a maximum of 125% of the base remuneration payable in shares.	
	2006	150,000 shares were issued under the APSAP in 2006 at an issue price of \$9.99 per share with the associated loan. An award subject to achieving the performance hurdle described below in 2009.
	2007	110,000 shares (issued in 2007 at an issue price of \$11.28 per share with the associated loan award subject to achieving the performance hurdle described below in 2010).
	2008	183,942 shares (issued in 2008 at an issue price of \$6.79 per share with the associated loan award subject to achieving the performance hurdle described below in 2011).
	2009	The current long term incentive plans have been suspended for the reasons noted on page 34.
Retention payment	25% of Mr Ryan's FY2008 base remuneration is payable to Mr Ryan if he is employed by the Company on 31 May 2011.	
Notice period	The Company may terminate Mr Ryan's appointment for cause or by giving Mr Ryan 12 months' notice in writing, or a payment in lieu. Any payment in lieu is to be calculated on the total sum of the base remuneration plus 100% of the maximum STI amount that would have been payable to Mr Ryan in respect of the financial year in which his appointment has been terminated. For the current contract a maximum payment of \$2,000,000 would be payable to Mr Ryan.	

Shareholder approval has been obtained in relation to grants of shares to Mr Ryan as Managing Director and Mr Thompson as Finance Director under the APSAP

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2009

Remuneration Report – audited (continued)

Key management personnel compensation (continued)

Table 7 Details of the nature and amount of each major element of compensation of each of the key management personnel.

DIRECTORS		SHORT-TERM			POST-EMPLOYMENT		EQUITY		TOTAL		\$	PROPORTION OF REMUNERATION PERFORMANCE-RELATED %	VALUE OF SHARES AS PROPORTION OF REMUNERATION %
		SALARY AND FEES \$	STI CASH BONUS \$	NON-MONETARY BENEFITS \$	SUPER-ANNUATION BENEFITS \$	RETIREMENT BENEFITS \$	SHARE-BASED PAYMENT \$	OTHER LONG-TERM BENEFITS \$	TERMINATION BENEFITS \$				
Non-executive													
SP Wareing	2009	202,140	–	–	77,860	–	–	–	–	280,000	–	–	
	2008	189,074	–	–	74,447	–	–	–	–	263,521	–	–	
RM Aitken	2009	105,743	–	–	9,067	–	–	–	–	114,810	–	–	
	2008	89,246	–	–	16,440	–	–	–	–	105,686	–	–	
JW Hall	2009	116,743	–	–	10,507	–	–	–	–	127,250	–	–	
	2008	75,333	–	–	41,616	–	–	–	–	116,949	–	–	
BJ Jackson ¹	2009	22,185	–	–	11,465	–	–	–	–	33,650	–	–	
	2008	94,460	–	–	8,568	–	–	–	–	103,028	–	–	
MB Luby	2009	83,432	–	–	37,823	–	–	–	–	121,255	–	–	
	2008	49,208	–	–	4,428	–	–	–	–	53,636	–	–	
RV McKinnon ²	2009	94,515	–	–	8,506	–	–	–	–	103,021	–	–	
EJ Pope	2009	75,048	–	–	43,482	–	–	–	–	118,530	–	–	
	2008	86,878	–	–	24,984	–	–	–	–	111,862	–	–	
Executive													
JJ Ryan	2009	969,640	–	–	13,694	–	(80,425)	(33,942)	–	868,967	n/c ³	n/c ³	
	2008	778,574	752,000	–	13,092	–	80,425	204,550	–	1,828,641	56.0%	4.4%	
NA Thompson	2009	530,057	–	–	13,694	–	(29,245)	27,893	–	542,399	n/c ³	n/c ³	
	2008	443,684	318,250	–	22,566	–	57,767	40,792	–	883,059	46.3%	6.5%	
Total	2009	2,199,503	–	–	226,098	–	(109,670)	(6,049)	–	2,309,882			
	2008	1,806,457	1,070,250	–	206,141	–	138,192	245,342	–	3,466,382			

1 Mr BJ Jackson retired as a non-executive director on 3 September 2008.

2 RV McKinnon was appointed to the Board on 1 July 2008.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2009

3 Non calculable.

Remuneration Report – audited (continued)

Key management personnel compensation (continued)

EXECUTIVES		SHORT-TERM		POST EMPLOYMENT	EQUITY	OTHER BENEFITS		TOTAL		\$	PROPORTION OF REMUNERATION PERFORMANCE-RELATED%	VALUE OF SHARES AS PROPORTION OF REMUNERATION %
		SALARY AND FEES \$	STI CASH BONUS ¹ \$	NON-MONETARY BENEFITS \$	SUPER-ANNUATION BENEFITS \$	SHARE-BASED PAYMENT \$	OTHER LONG-TERM BENEFITS \$	TERMINATION BENEFITS				
Current												
P Boyd	2009	450,154	–	–	47,764	(120,824)	37,776	–	414,870	n/c ⁴	n/c ⁴	
	2008	432,209	100,000	–	43,885	120,824	7,699	–	704,617	31.3%	17.1%	
J Brennan ²	2009	379,581	25,000	41,369	56,938	(13,611)	50,459	–	539,736	2.1%	n/c ⁴	
	2008	282,795	401,145	27,837	31,795	13,611	5,489	–	762,672	54.4%	1.8%	
S Cox	2009	357,650	–	27,462	31,555	(17,241)	17,500	–	416,926	n/c ⁴	n/c ⁴	
	2008	339,633	157,068	4,577	30,953	31,502	32,868	–	596,601	36.1%	5.3%	
B O'Connor	2009	265,879	–	19,178	33,694	(13,838)	6,848	–	311,761	n/c ⁴	n/c ⁴	
	2008	248,412	143,350	27,989	33,092	23,821	30,880	–	507,544	38.0%	4.7%	
W Powell	2009	347,474	–	33,558	33,683	(16,334)	15,826	–	414,207	n/c ⁴	n/c ⁴	
	2008	276,520	219,339	25,168	33,438	30,594	32,179	–	617,238	44.8%	5.0%	
L Rafferty	2009	421,307	–	–	13,694	(17,241)	19,398	–	437,158	n/c ⁴	n/c ⁴	
	2008	360,241	259,667	–	13,092	31,502	32,837	–	697,339	45.6%	4.5%	
Former³												
A Fonseca	2008	283,574	174,000	–	13,092	23,594	27,982	–	522,242	42.3%	4.5%	
R Paul	2008	58,752	–	11,752	3,534	–	1,175	223,619	298,832	–	–	
N Schoerie ²	2009	222,191	383,130	–	29,988	–	3,953	–	639,262	59.9%	–	
A Sullivan	2009	50,315	–	23,295	4,530	(13,384)	(53,799)	141,242	152,199	n/c ⁴	n/c ⁴	
	2008	147,023	103,058	33,630	113,481	23,368	29,729	–	450,289	33.6%	5.2%	
J Wedge	2009	25,408	–	–	2,287	–	423	–	28,118	–	–	
	2008	204,516	–	72,884	24,966	–	–	–	302,366	–	–	
Total	2009	2,519,959	408,130	144,862	254,133	(212,473)	98,384	141,242	3,354,237	–	–	
	2008	2,633,675	1,557,627	203,837	341,328	298,816	200,838	223,619	5,459,740	–	–	

1 The short-term incentive is a cash bonus for performance during the relevant financial year using criteria set out on pages 40-41.

2 No short term incentive bonuses were paid to executive directors or senior management, even though some of the incentives were earned except in the case of Mr Brennan, as a result of a prior contractual agreement based on the successful integration of the Parbury and Lincoln Sentry hardware businesses in 2007 and, in the case of Ms Schoerie, a bonus relating to the successful sale of the Group's Scientific & Medical division in April 2009.

3 A Fonseca retired from the Executive Committee on 1 June 2008 on his appointment to GM Finance, Water Products & Services, R Paul resigned on 5 October 2007, N Schoerie resigned on sale of the Scientific & Medical division on 30 April 2009, A Sullivan resigned 3 September 2008 and J Wedge resigned from the Executive Committee on 30 June 2008.

4 Non-calculable.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2009

Remuneration Report – audited (continued)

Analysis of share-based payments granted as compensation under the Alesco Management Share Plan (AMSP)

Table 8 sets out the details of the vesting profile of the shares granted as remuneration under the AMSP to each key management personnel of the Group. The minimum value of shares yet to vest is nil as the performance criteria may not be met and consequently the shares may not vest. The maximum value of shares yet to vest is not determinable as it depends on the market price of shares at the end of the performance period.

Table 8

	SHARES GRANTED		VESTED IN YEAR	FORFEITED IN YEAR	PERFORMANCE PERIOD ENDED
	NUMBER	DATE OF GRANT	%	%	
Directors					
N Thompson	10,000	January 2006	100	—	31 May 2008
Executives					
P Boyd	20,000	March 2007	—	—	31 May 2010
	51,504	September 2008	—	—	31 May 2011
S Cox	5,000	November 2005	100	—	31 May 2008
B O'Connor	3,500	November 2005	100	—	31 May 2008
W Powell	5,000	November 2005	100	—	31 May 2008
L Rafferty	5,000	November 2005	100	—	31 May 2008

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2009

Remuneration Report – audited (continued)

Table 9 Analysis of share based compensation granted under APSAP

	TOTAL SHARES HELD AT 1 JUNE 2008	CARRYING VALUE OF LOANS HELD AT 1 JUNE 2008 ¹	SHARES GRANTED DURING YEAR	PRESENT VALUE OF LOAN GRANTED DURING THE YEAR ²	LOANS ADJUST- MENTS	REPAY-MENTS MADE	INTEREST FREE BENEFIT	SHARES HELD ON RETIRE- MENT ³	TOTAL SHARES HELD AT 31 MAY 2009	VALUE OF LOANS FORGIVEN DURING YEAR	CARRYING VALUE OF LOANS AT 31 MAY 2009 ¹	INCLUDED IN COMPENSA- TION	FACE VALUE OF LOANS AT 31 MAY 2009
	NUMBER	\$	NUMBER	\$	\$	\$	\$	NUMBER	NUMBER	\$	\$	\$	\$
Directors													
J Ryan	260,000	1,426,195	183,942	776,149	328,180	(71,537)	370,499	–	443,942	–	2,829,486	(130,528)	3,783,088
N Thompson	65,931	370,946	30,000	126,586	82,944	(18,141)	91,769	–	95,931	–	654,104	(10,187)	867,737
Executives													
P Boyd	26,426	176,819	–	–	36,818	(7,271)	29,705	–	26,426	–	236,071	(7,239)	311,697
J Brennan	18,616	110,358	45,323	191,242	23,253	(4,012)	42,722	–	63,939	–	363,563	29,111	509,577
S Cox	44,606	248,294	43,263	182,550	56,196	(12,273)	69,739	–	87,869	–	544,506	(6,457)	736,954
B O'Connor	39,252	217,092	32,963	139,088	49,492	(10,800)	58,755	–	72,215	–	453,627	(12,074)	610,536
W Powell	43,365	240,937	43,263	182,550	54,646	(10,907)	68,059	–	86,628	–	535,285	(7,770)	724,614
L Rafferty	44,606	248,294	47,384	199,938	56,196	(12,273)	71,331	–	91,990	–	563,486	(7,865)	764,954
A Sullivan ³	37,930	214,806	–	–	–	(116,418)	–	(37,930)	–	(98,388)	–	(98,388)	–

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2009

Remuneration Report – audited (continued)

Table 9 Analysis of share based compensation (continued)

	TOTAL SHARES HELD AT 1 JUNE 2007	CARRYING VALUE OF LOANS HELD AT 1 JUNE 2007 ¹	SHARES GRANTED DURING YEAR	PRESENT VALUE OF LOAN GRANTED DURING THE YEAR ¹	LOANS ADJUST- MENTS	REPAY-MENTS MADE	INTEREST FREE BENEFIT	SHARES SOLD ON RETIRE- MENT	TOTAL SHARES HELD AT 31 MAY 2008	VALUE OF LOAN HELD ON RETIRE- MENT	CARRYING VALUE OF LOANS AT 31 MAY 2008 ¹	INCLUDED IN COMPENSA- TION	FACE VALUE OF LOANS AT 31 MAY 2008
	NUMBER	\$	NUMBER	\$	\$	\$	\$	NUMBER	NUMBER	\$	\$	\$	\$
Directors													
J Ryan	150,000	760,619	110,000	633,067	–	(102,873)	135,382	–	260,000	–	1,426,195	271,860	2,563,358
N Thompson	25,931	131,490	40,000	230,206	–	(22,756)	32,006	–	65,931	–	370,946	62,339	674,875
Executives													
A Fonseca ²	18,222	92,399	18,616	107,138	–	(13,742)	18,600	(36,838)	–	(204,395)	–	36,867	–
P Boyd	–	–	26,426	169,638	–	(13,532)	20,713	–	26,426	–	176,819	36,944	311,697
J Brennan	–	–	18,616	107,138	–	(4,411)	7,631	–	18,616	–	110,358	13,611	205,589
S Cox	21,025	106,614	23,581	135,712	–	(16,354)	22,322	–	44,606	–	248,294	44,074	449,442
B O'Connor	20,325	103,064	18,927	108,928	–	(14,893)	19,993	–	39,252	–	217,092	39,777	391,744
W Powell	21,025	106,614	22,340	128,570	–	(16,060)	21,813	–	43,365	–	240,937	43,167	435,736
L Rafferty	21,025	106,614	23,581	135,712	–	(16,354)	22,322	–	44,606	–	248,294	44,074	449,442
A Sullivan ³	19,624	99,510	18,306	105,354	–	(9,374)	19,316	–	37,930	–	214,806	38,429	378,590

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. A Fonseca formerly Group Financial Controller, was promoted to Group Finance Manager, Water Products & Services on 1 June 2008 and is no longer a member of the Executive Committee.
3. During the year, a senior executive who participated in the Plan left the Company prior to the performance conditions being met. At the discretion of the Board, 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. Total shares held were sold as at the date of termination to repay the outstanding loan amount.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2009

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 can be found on page 134 of the Annual Report and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'SP WAREING', with a long horizontal flourish extending to the right.

SP WAREING

28 July 2009