2012 ANNUAL GENERAL MEETING
OF ALESCO CORPORATION LIMITED

Tuesday 18 September 2012 at 11.30am
Museum of Sydney
Chairman's Address

Introduction

Good morning ladies and gentlemen and welcome shareholders to Alesco's 101st Annual General Meeting. I would also like to welcome listeners through our webcast.

I particularly welcome our newest shareholders to the meeting. I thank them for investing in our Company and for taking the time to come to the AGM today to hear about the significant progress management and the Board have made in reshaping and repositioning Alesco over the past two years.

My name is Mark Luby and I am Chairman of your Company.

I would like to introduce to you my fellow Directors.

From your left the Directors are Rob Aitken, John Marlay, Bob McKinnon, Ern Pope, Jenny Tait and our Managing Director, Peter Boyd.

Also with us today is Emmanuel Zammit our Chief Financial Officer and Luci Rafferty, our Company Secretary.

I would like to welcome representatives from the Company's external auditors, KPMG. Unfortunately Anthony Jones, KPMG's lead partner on the Alesco account, is unable to join us today as he is currently overseas. However, I would like to take this opportunity of welcoming Julie Cleary as his representative.

Today I would like to provide an update to shareholders on the progress management and the Board has made to reshape your Company over the past two years and comment on our current trading performance and outlook.

I will also provide some commentary around the DuluxGroup takeover bid, including an overview of your Board's response since the unsolicited bid was launched by DuluxGroup on 1 May 2012.

I will also talk through the key remuneration matters and Board succession.

Our Managing Director Peter Boyd will then report on the 2012 financial year results and outline our plans for 2013.

I look forward to then taking your questions from the floor at the conclusion of Peter's presentation.

Following your questions, we will proceed to the more formal part of the meeting to consider, discuss and vote on the resolutions set out in the Notice of Meeting.

At the end of the meeting, all shareholders and visitors are invited to join the Board for refreshments in the foyer outside.

I confirm that the Company Secretary has advised me that a quorum is present in person or by proxy and, accordingly, I declare the meeting open.

In addition to those shareholders present at today's meeting, I can confirm that the holders of approximately 49 million ordinary shares or approximately 52% of the Company's shareholders are represented by proxies.

Business and Trading Update

Many of you here today have been shareholders in Alesco during the last two years, and, in some cases, considerably longer. As a result, many of you would be aware of the work this management team and Board have done to reshape Alesco's portfolio of businesses, strengthen its balance sheet and focus on improving its operational fitness and financial performance through our Project Restore operational improvement program during this time.

The Board is pleased with the progress Peter Boyd and his management team have made during the past year, despite ongoing challenging market conditions. The portfolio reshaping has now been completed with the sale of the loss-making Parbury business and the Dekorform business in March this year. This followed the sale of the Water Products & Services division and the Marathon Tyres business in 2011.

The Project Restore initiatives aimed at improving our operational and financial fitness are gaining real traction, and our second half result from continuing businesses provides to shareholders a clear demonstration of our progress. In the second half, our revenue from continuing businesses was down only 5% compared to the prior year, despite the overall detached housing markets down around 10% during that same period. Our EBIT line held up reasonably well, down only 2%. This demonstrates the cost and efficiency initiatives of Project Restore are working and are being reflected in the profit and loss through margin improvement.

As a result, we reported a full year profit result above the guidance we provided to shareholders in January and Alesco's second half result from continuing businesses fared significantly better than many of our Building and Construction industry peers.

The portfolio reshaping, together with improved working capital management from Project Restore initiatives, have enabled us to strengthen Alesco's balance sheet considerably, with debt levels down to $66 million from $129 million two years ago and our gearing at 14% compared to 23% at May 2010.

The encouraging second half performance from our portfolio of profitable divisions has continued into the first quarter of the current financial year despite ongoing challenging market conditions. There is no denying our revenue line has remained under pressure in the first quarter of FY13 and is down 6% on prior year. However, this result compares to the overall detached housing and renovation markets that are both down around 10% on the prior year. This better-than-market revenue performance is due, in part, to the continued rollout of our new trade store network in Parchem which now has 16 stores in operation as we push towards having 30 stores operating in the market over the next two years.

The benefits of Project Restore have continued to flow through the business in the first quarter. Importantly, the Project Restore program from Parchem's new purpose built manufacturing and distribution facility at Wyong is delivering improved operating margins and is now in line with the original business case.

We are pleased to report that our Profit after Tax from continuing businesses for the first quarter is in line with the prior year despite the continuing decline in the market. We continue to manage our debt levels which have been maintained at around the $68 million at month end for each month since the year end.

Peter will talk more about Project Restore in his presentation and highlight some of the initiatives which have commenced under Phase II.

Shareholders in Alesco now own a focused portfolio of building product businesses with market leading brands that provide innovative products and produce strong cash flows. You are owners of a Company with a strengthened balance sheet and which is well progressed through a disciplined turnaround program. Alesco is well positioned to withstand the tough market conditions and perform at any time in the cycle as demonstrated through our FY12 second half result and first quarter FY13 result. Additionally, Alesco will benefit from the inevitable recovery in the Australian and New Zealand detached housing and renovation markets.

For these reasons, over the past six months, your Directors have been able to consider capital management initiatives for the benefit of Alesco shareholders. Alesco has a strong bank of franking credits that belong to Alesco shareholders. In conjunction with the FY12 results, your Directors announced our intention to access that franking credit capacity and release franking credits over the next two to three years to shareholders of Alesco, having regard to a prudent management of our balance sheet.

The Board has already announced a fully franked special dividend of 10 cents per share, in addition to the fully franked 5 cents ordinary final dividend as the first step in this capital management initiative. Shareholders were paid both these dividends earlier this month which brought our total dividends paid to shareholders in the last 12 months to 18 cents per share compared to 14 cents per share in the prior year.

The Board also announced its intention to determine further special fully franked dividends of 25 to 30 cents over the next two to three years. This is in addition to our dividend policy of paying shareholders an average full year dividend payout in the range of 60% to 80% of net profit after tax.

Your Directors will continue to actively manage the balance sheet of Alesco to ensure we are in position to release this bank of franking credits for the benefit of all Alesco shareholders.

Outlook

Your Directors remain confident that benefits will continue to be delivered through the extensive Project Restore turnaround program. Alesco has three profitable divisions with market leading brands and innovative products which all stand to benefit from a recovery in the new housing and renovation markets.

Alesco is outperforming the market in very tough times which is proof that the operational improvement initiatives Peter and his team have implemented around customer service and new revenue streams are gaining good traction.

While we cannot predict the timing of the recovery, many of the required pre-requisites such as lower interest rates, government incentives for new home builds in NSW and an underlying pent-up demand for housing through population growth are present and will provide the framework for the recovery in markets in due course.

In these uncertain market conditions it is difficult to be absolutely certain about the immediate future. However, your Board is confident that with the improved operational and financial fitness of our profitable continuing divisions we will be able to maintain our gross margins and, despite continued tough and volatile market conditions, our revenue line will continue to outperform the market, particularly with the rollout of our Parchem trade store network.

As I noted earlier, our profit after tax from continuing businesses for the first quarter is in line with the prior year despite the continuing decline in the market. More importantly, we expect our reported profit after tax for the half-year to be well ahead of last year.

We will continue to pursue the capital management initiatives we have outlined earlier to enable shareholders to take advantage of our large franking credit balance through the payment of special dividends as outlined earlier in addition to maintaining our dividend policy of paying 60% to 80% of profit after tax.

DuluxGroup Takeover Offer

It was against that backdrop of above-market performance in a very difficult trading environment that DuluxGroup launched its unsolicited and hostile takeover offer for Alesco.

Having successfully repositioned our portfolio with a disciplined divestment program, initiated a program to restore operational and financial fitness and strengthened the balance sheet through the reduction of debt, your Board had been prepared for the potential for another party to show interest in acquiring your Company.

Why is Alesco attractive to a bidder such as DuluxGroup?

1. Alesco is a focussed profitable building products company with market leading brands and innovative products, a quality management team that has successfully driven the turnaround over the past two years, a clean balance sheet with low gearing and a strong bank of franking credits that could be used to the benefit of an acquiring company, such as DuluxGroup.

2. Alesco is a company participating in cyclical markets that are currently at a low point in the cycle. Alesco will clearly benefit from the inevitable recovery in the Australian and New Zealand detached housing and renovation markets when it occurs. Alesco shareholders stand to benefit from this upswing.

3. Alesco is a company with three standalone well managed profitable divisions that could be immediately integrated into DuluxGroup to release over $9 million on a pre-tax basis of corporate synergy benefits annually very quickly.

In that light, it is no surprise that DuluxGroup would like to own Alesco. DuluxGroup has chosen to achieve this by launching an unsolicited, hostile and opportunistic takeover offer.

DuluxGroup has offered a price that will result in <u>9%</u> EPS accretion for its shareholders in year one, drive significant synergies of more than $9 million per year and further position the combined group to benefit from the inevitable turn in the cycle.

The question is not whether it is a good deal for DuluxGroup, which it undoubtedly is, but whether it is a good deal for ALL Alesco shareholders.

It is in that context that I would like to talk to you about the underlying principles the Board has adopted in dealing with the DuluxGroup offer.

This is **<u>your company</u>** and our duty as your Directors is to <u>all</u> shareholders – whether large or small, whether you have been on the journey with us for a long time or have only recently joined our register, whether you are investors wanting capital growth or dividend income.

We are acutely conscious of the fact that we have a diverse range of shareholders with different priorities, depending on their entry price, tax position and investment priorities and horizons.

Some of our shareholders are short term traders looking simply to take advantage of the current takeover environment, while other shareholders are long term investors looking for a business with competent management, quality products, market leading positions, a clean balance sheet and a clear dividend policy going forward.

We have to take into account the interests of ALL of you and we take that duty very seriously.

Your Board has consistently held the view that DuluxGroup's best and final Offer of $2.05 per Alesco Share, potentially incorporating up to $0.42 per Alesco Share in fully franked dividends,[1] is materially inadequate, and undervalues Alesco. It is significantly below the Independent Expert's valuation range of $2.23 to $2.52 per Alesco Share. The Independent Expert concluded that the DuluxGroup Offer is neither fair nor reasonable and did not reflect any upturn in the cycle within the valuation.

The timing of DuluxGroup's bid was, and still is, highly opportunistic. It comes at a time where we are part way through the successful Project Restore turnaround program we have undertaken over the past two years. This program is gaining traction as demonstrated by our second half performance in FY12 and our first quarter performance in FY13.

We are at ten year lows in the detached housing market and a low point in renovation cycles in Australia and New Zealand. Our business is directly linked to those cycles and our shareholders stand to reap the benefit from the cyclical upswing that will drive material improvements in earnings when it arrives.

The business generates strong cash flows and, as a result, our net debt levels remain substantially lower at $66.0 million compared to prior corresponding periods. We have almost halved our debt burden between 31 May 2010 and today.

Alesco has a healthy franking credit balance of approximately $31.6 million following the payment of the FY12 final and special dividends and, as announced in July, it is the Board's intention to release these franking credits to Alesco shareholders through a prudent capital management program. These franking credits belong to Alesco shareholders and in any transaction should be recognised as part of the inherent value of the business.

For all those reasons, your Board has maintained its firm and clear stance in relation to the DuluxGroup Offer. Let me be clear, however, that we have never opposed DuluxGroup's offer for the sake of opposing it. We have always been, and continue

[1] See announcement by DuluxGroup lodged on 23 July 2012 in which DuluxGroup confirmed that it would not reduce its cash Offer by the amount of up to $0.18 per Alesco Shares share in franking credits attached to any dividends determined by Alesco (based on aggregate dividends of up to $0.42 per share).

to be, more than willing to engage with DuluxGroup with the aim of developing a proposal that delivers full and fair value for you, our shareholders.

Throughout the takeover we have sought to enhance value for our shareholders, including negotiating with DuluxGroup to see if an agreed position could be reached, initiating Takeovers Panel proceedings to determine whether we could deliver an enhanced offer for you and establishing the Alesco Shareholder Acceptance Facility.

Unfortunately, our attempt to negotiate a fair and reasonable outcome for Alesco shareholders has not been supported by DuluxGroup. It has been materially constrained by DuluxGroup's decision to go "best and final" on 23 July and now by DuluxGroup's decision to go unconditional on 1 October if it has acquired 50.1% of Alesco by then.

This leaves us where we are at today. The only current offer available to Alesco shareholders is the DuluxGroup Offer of $2.05 per share, which may incorporate up to $0.42 per Alesco Share in aggregated fully franked dividends if the Alesco Board determines this.

While the Directors maintain their view that this Offer materially undervalues Alesco, we have acknowledged that some Alesco Shareholders, including some of the larger institutional shareholders and those who have bought into the Company since the DuluxGroup offer was announced, may have a different perspective, including a desire for short term cash or a focus on shorter term returns.

It was in this context that we announced earlier this month that your Alesco Board **is** willing to facilitate the possibility of an additional fully franked dividend being determined and paid if the overwhelming majority of Alesco Shareholders support it. In order for Alesco Shareholders to demonstrate this support, Alesco established the Alesco Shareholder Acceptance Facility.

I think it is important to highlight the two considerations which informed the Directors decision to establish the Alesco Shareholder Acceptance Facility:

- Firstly, we believe this is pragmatic step to allow Alesco Shareholders, who value receiving as many franking credits generated by Alesco as the Offer now permits, to clearly demonstrate their preference for this outcome to the Board. We encourage all institutional and retail shareholders who wish to optimise the franking credit opportunity to place their shares into the ALSAF.

- Secondly, having just paid shareholders $0.15 per share in Final and Special dividends on 7 September 2012, Alesco cannot prudently afford to pay additional dividend of up to $0.27 per share at this time, given the constraints of its existing banking facilities and banking covenants and because it would be financially imprudent as a ongoing standalone listed entity.

  Accordingly, Alesco can only exercise its discretion to deliver fully franked additional dividends of up to $0.27 per share if, amongst other things, appropriate funding to do this can be secured. This, in turn, requires certainty DuluxGroup will not go unconditional until it achieves at least 90% ownership of Alesco as a result of this Offer, so that DuluxGroup can take responsibility for funding Alesco on a going forward basis once any additional dividend is paid.

The Board acknowledges that the current situation is complex for shareholders and there are a number of options open to you.

In summary:

- Your Directors recommend that if you believe the DuluxGroup offer fundamentally undervalues Alesco then you should simply DO NOTHING in relation to the offer. IGNORE the documents that DuluxGroup might send you and continue to own your shares.

- For those shareholders who wish to accept the offer and avail themselves of the possibility of additional dividends, the Alesco Board has found a pathway for shareholders to express this view, through acceptance into the ALSAF. In the event of an overwhelming majority of shareholders placing their shares into the ALSAF the Alesco Board will facilitate, to the greatest extent it practically can, the payment of an additional dividend of up to 27 cents per share.

- Or, shareholders could sell their shares on market

If DuluxGroup's offer becomes unconditional, these options will change. The Board will update shareholders should this circumstance arise.

Any shareholder who accepts the DuluxGroup offer will not receive any further dividends or franking credits beyond the 15 cents per share already paid.

We thank all shareholders for their continued support throughout the Offer. I am sure there will be many questions regarding this matter later in the meeting and I look forward to taking your questions and would welcome your comments.

Turning now to other matters.....

Remuneration and Performance Share Rights

At the formal part of today's meeting, shareholders will be asked to approve the FY12 Remuneration Report and approve the issue of Performance Rights to Peter Boyd and I will be happy to respond to any questions or comments at that time.

Last year shareholders encouraged the Board to review the long term incentive arrangements for executives and to make a number of adjustments to its Long Term Incentive Plan or Alesco's Performance Rights Plan. We considered this feedback and made a number of changes which will apply to the proposed 2012 grant which is the subject of approval today.

1. We have introduced a third measure — return on net operating assets (RNOA).

   This new measure will complement our existing performance measures of earnings per share (EPS) and total shareholder return (TSR). The maximum potential award for EPS is 60% of the award with the other two measures at 20% each.

2. We have set more challenging target and stretch measures based on the compound annual growth on actual FY12 results. The Earnings per Share target has been increased 50% from 5% to 7.5%. Similarly the new Return on Net Operating Assets performance hurdle has been set at 15%.

3. Given the FY12 net profit after tax result delivered a loss, we recognise that this is an unacceptable starting point. As a result, the base EPS and RNOA measures will be determined by the Board having regard to the future plans and objectives of the Company. The FY13 performance conditions will be measured following the approval of the FY15 audited financial results. Again I can assure shareholders that the EPS base for the FY12 year takes a stretch position on prior year performance and will be disclosed in the 2013 Remuneration Report.

4. A new index is to be adopted for the purposes of measuring TSR being the S&P Small Ordinaries Accumulation Index minus financials and resources. This index replaces the S&P Small Ordinaries Index used in previous years.

Finally, there will be no re-test opportunity to receive an LTI award beyond the three year measurement period.

We believe that these changes are appropriate having regard to the current status of our turnaround program, recognising that we are now firmly a building products company and the current market conditions and outlook for these building products sector.

Turning briefly to the annual grant of performance rights and resolution 3, I would like to note that at the time the Board considered Peter Boyd's remuneration structure in July, the outcome and timing of the DuluxGroup takeover bid was uncertain. Therefore the Board took a pragmatic approach, opting to continue business as usual and to keep its options open.

With DuluxGroup earlier this month extending its Offer beyond today's meeting, the Directors decided that the Board would **not** accelerate the 2012 grant of performance rights to Peter Boyd if the grant is approved today. This means that the rights will not accelerate if the DuluxGroup Offer becomes unconditional and there is a change of control. This decision will apply to all 2012 participants under the Plan.

Directors and Board Succession

Today we are asking shareholders to approve the election of non-executive director John Marlay to the Board of Alesco for a three year term. John will address shareholders later in the meeting. The Board unanimously recommends the election of John Marlay.

Rob Aitken will also be retiring from the Board having served his permitted nine-year term. Rob, on behalf the Board and Alesco shareholders we thank you for your significant contribution to Alesco and wish you well in your retirement.

I take this opportunity to thank my fellow Directors for their contribution over the past year. I would also like to acknowledge the services of Jim Hall, who retired in March after six years on the Board.

Finally I would also like to thank Peter Boyd, the senior leadership team and all our employees for their achievements over the past 12 months. I am delighted that we have been able to retain management and staff despite the uncertainty of the takeover and the increased workload which it has involved. More importantly, despite the distractions of the corporate activity, our divisional teams have remained focussed and committed to delivering improved financial results.

Thank you.