

## Corporate governance statement

This report sets out the Hills Limited (Hills) annual statement on its corporate governance framework for the year ended 30 June 2016. The Board considers that Hills corporate governance framework and practices continue to comply with the requirements of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, 3rd Edition (Principles and Recommendations) and meet the interests of our shareholders.

### Principle 1: Lay solid foundations for management and oversight

#### *The Board and Management*

The Board has adopted a formal Board Charter which sets out the roles, responsibilities, structure and composition of the Board of Directors of Hills. The matters which require approval by the Board are included. A copy of the Board Charter is available on the Corporate Governance section of the Hills website at <http://www.hills.com.au/about-us/governance>.

By providing the overall strategic direction for Hills, the Board ensures that Hills activities comply with its Constitution, and with all legal and regulatory requirements, and defines the powers to be reserved to the Board and those that are delegated to its committees and management. A copy of the Constitution is available on the Hills website at <http://www.hills.com.au/about-us/governance>.

A summary of duties for the Chairman and the Chief Executive Officer are reviewed and agreed by the Board. The Board has delegated to the Chief Executive Officer the authority to manage the day to day affairs of Hills. The Company Secretary has direct accountability to the Board through the Chairman on all matters associated with the proper functioning of the Board.

#### *Director Appointments*

When filling a casual vacancy the Board undertakes a formal process to identify and assess potential candidates. Hills retains a director search firm to identify and vet potential candidates. The Directors interview the shortlists candidates. Reference and probity checks are undertaken by both the search firm and reference checks of the final candidate by the Chairman.

At the first Annual General Meeting following the appointment of a director they stand for election. At that time their experience and qualifications are provided to shareholders to enable them to elect or not to elect the new director.

A formal letter of appointment is issued to all new directors setting out their terms of appointment.

New directors participate in a director induction programme to ensure that they are able to participate immediately.

Directors have the opportunity to attend conferences and other development opportunities to ensure that they remain up to date and can perform their role as directors effectively.

#### *Diversity*

Hills is committed to creating a diverse workplace that is fair and flexible, promotes personal and professional growth and enables employees to enhance their contribution to Hills by drawing from their different backgrounds, beliefs and experiences. The Board has adopted a Diversity Policy which requires Hills to embrace differences in backgrounds, qualifications and experiences and also differences in approach and viewpoints. It includes characteristics such as gender, age, ethnicity, cultural background, language, disability and other areas of potential difference.

The Diversity Policy also requires the setting of specific gender diversity objectives and a range of measures to determine achievement of those objectives. The objectives and measures are assessed annually by the Board and the Remuneration Committee.

The Board is of the view that appointment of females to senior positions in the Company is the most effective way to encourage change in the workforce, specifically in achieving gender balance. The Hills achievement of the objectives for the period are set out in the table below:

	Objective %	Actual at 2016 %
Percentage of women on the Board	33	40
Percentage of women in executive positions	40	28.57
Percentage of women in the organisation	35	34.50

**Principle 2: Structure the Board to add value**

*Nomination Committee*

The Board has established a Nomination Committee which consists of a majority of Independent Non-Executive Directors including Mr Ian Elliot as the Committee Chairman and Mr Philip Bullock. Ms Jennifer Hill-Ling is also a member of the Committee. The Board's Nomination Committee, amongst other things, is to ensure that the Board is comprised of individuals with an appropriate range of skills, experience, expertise, and that the Board benefits from diversity of gender. The Committee met once during the year and all committee members attended. The charter of Nomination Committee is available on the Company website at <http://corporate.hills.com.au/about-us/governance..>

*Skills Matrix*

The Hills Board have developed a Skills Matrix which sets out the mix of skills necessary to achieve its strategic and operational priorities of the Company. When filling board positions candidates are assessed against the skill set outlined below.

The current mix of directors provides coverage of all the skills identified.

Strategic Priorities / Areas	SKILLS MATRIX	
	Functional	Industry Specialisation
<p>Improve Customer Advocacy</p> <p>Drive Value from the Core</p> <p>Build and acquire growth businesses</p>	<ul style="list-style-type: none"> <li>▪ Marketing, Retail, Sales, Distribution</li> <li>▪ General Business Management &amp; Entrepreneurship</li> <li>▪ Highly Competitive &amp; Dynamic Markets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Telecommunications</li> <li>▪ Engineering &amp; Networks</li> <li>▪ Information and Technology</li> <li>▪ Security and Monitoring</li> <li>▪ Health Industry &amp; Medical</li> </ul>
Other Areas	<ul style="list-style-type: none"> <li>▪ CEO Level Experience</li> <li>▪ Other NED Experience</li> </ul>	<ul style="list-style-type: none"> <li>▪ Accounting , Finance and Audit</li> <li>▪ Legal , Governance and Compliance</li> <li>▪ Risk Management</li> <li>▪ Human Resources and Remuneration</li> </ul>

Independent Directors

The Board is composed of five Non-Executive Directors.

Name	Non-Independent/ Independent	Tenure	Experience
<b>Jennifer Helen Hill-Ling</b> LLB (Adel) FAICD <i>Chairman</i>	Non-Independent	31 years (August 1985)	Jennifer Hill-Ling has extensive experience in corporate and commercial law, specialising in corporate and business structuring, mergers and acquisitions, joint ventures and related commercial transactions. She practiced law for some 25 years and was a senior partner in two Sydney law firms in that time. She was formerly a director of Tower Trust Limited and MS Limited. She is a fellow of the Australian Institute of Company Directors.
<b>Ian Elliot</b> FAICD	Independent	13 years (August 2003)	Ian Elliot has spent 39 years in marketing. His speciality is brand building, with extensive involvement in a number of iconic brands. Mr Elliot is a fellow of the Australian Institute of Company Directors and graduate of the Harvard Business School Advanced Management Program. In addition to his listed company directorships he was formerly Chairman of Zenith Media Pty Ltd, Cordiant Communications Group, Allied Brands Limited, Promentum Limited and Artist & Entertainment Group Limited and Chairman and Chief Executive Officer (CEO) of George Patterson Advertising and director of the National Australia Day Council.

**Hills Limited**  
**Corporate governance statement**  
**30 June 2016**  
(continued)

<p><b>David Moray Spence</b> B Com</p>	<p>Independent</p>	<p>6 years (September 2010)</p>	<p>David Spence has experience in a number of industries and more recently in the technology and communications industry. He has over 25 years of senior management experience, including as Chief Financial Officer (CFO) of Freedom Furniture and OPSM, where he also assumed responsibility for manufacturing and logistics. He has been directly involved in many internet and communications companies including the building of Australia's first and largest dial up ISP, OzEmail.</p> <p>Mr Spence was the chief executive officer of Unwired Australia until February 2010. He has been involved in a number of listed and non-listed boards including WebCentral, uuNet, Access1, Emitch, Commander Communications, Chaosmusic, ubowireless, Vividwireless and is a past chairman of the Internet Industry Association. He is currently a non-executive Director of Vocus Communications Limited, SAI Global Limited and of PayPal Australia Pty Ltd.</p>
<p><b>Fiona Rosalyn Vivienne Bennett</b> BA (Hons) FCA FAICD FAIM</p>	<p>Independent</p>	<p>6 years (May 2010)</p>	<p>Fiona Bennett is a Chartered Accountant with over 30 years' experience in business and financial management, corporate governance, risk management and audit. She has previously held senior executive positions at BHP Billiton Limited and Coles Group Limited and has been a Chief Financial Officer at several organisations in the health sector. She is currently Chairman of the Victorian Legal Services Board and a director of Beach Energy Limited. She was formerly a director of Boom Logistics Limited.</p>
<p><b>Philip Bullock</b> BA, MBA, GAICD, Dip. Ed.</p>	<p>Independent</p>	<p>2 year (June 2015)</p>	<p>Mr Bullock was formerly Vice President of the Systems and Technology Group, IBM Asia Pacific, based in Shanghai, China. Prior to that he was CEO and Managing Director of IBM Australia and New Zealand. Mr Bullock is a non-executive director of Perpetual Limited and formerly of Healthscope Limited and CSG Limited. He has also provided advice to the Federal Government, through a number of organisations, most notably as Chair of Skills Australia.</p>

Hills does not consider length of tenure a relevant disqualifying matter for independence and values the experience gained by the Directors in serving on the Board. Hills does however consider board renewal important and the tenure periods of each director evidences regular renewal.

The Board regularly assesses the independence of each Non-Executive Director and considers all Non-Executive Directors to be independent except Ms Jennifer Hill Ling. Ms Jennifer Hill Ling holds the position of Chairman and is responsible for the leadership and effective performance of the Board. Given the depth of her company experience and her industry standing she is considered to be excellently placed to serve as Chairman, notwithstanding that pursuant to the ASX recommendation she is not considered an 'Independent' Chairman. For these reasons the ASX recommendation for an Independent Chairman has not been adopted.

Mr Ian Elliot is the Lead Independent Director.

**Principle 3: Promote ethical and responsible decision making**

The Hills Code of Conduct (the Code) provides guidance on what is acceptable behaviour, requiring all Directors, managers and employees to maintain the highest standards of integrity and honesty. The code is available at <http://www.hills.com.au/about-us/governance>.

Hills expects its Directors, management and staff to report conduct that is dishonest, fraudulent, corrupt or illegal, endangers health and safety, or is a suspected breach of the Code or any Hills policy. Hills has adopted a Whistle Blower Protection Policy to ensure concerns regarding unacceptable conduct can be raised on a confidential basis without fear of reprisal, dismissal or discriminatory conduct.

The Hills Securities Policy governs the trading in Hills shares by Directors, management and staff in compliance with the ASX Listing Rules requirements. This policy is available on the Hills website at <http://www.hills.com.au/about-us/governance>.

**Principle 4: Safeguard integrity in financial reporting**

Hills is committed to maintaining a transparent system for auditing and reporting of Hills financial performance. The Board has established an Audit, Risk and Compliance Committee which performs a central function in achieving this goal.

Members of the Audit, Risk and Compliance Committee are:

- Fiona Rosalyn Vivienne Bennett (Committee Chairman);
- David Moray Spence; and
- Philip Bullock.

All members of the Committee are independent, Non-Executive Directors.

A copy of the Committee's charter is available on the Hills website at <http://www.hills.com.au/about-us/governance>.

The Company also has an Audit Independence Policy to ensure the integrity of its external audit. This policy is also available on the Hills website at <http://www.hills.com.au/about-us/governance>.

The Committee has met six times in the 2016 financial year. The attendance of the Committee members is as follows:

Committee Member	Number of Meetings	Number of Meetings Attended
Fiona Rosalyn Vivienne Bennett	6	6
David Moray Spence	6	5
Philip Bullock	6	6

The Chief Executive Officer and the Chief Financial Officer have provided the Board with a written declaration in accordance with s295A of the *Corporations Act* that the full year financial statements are founded on a sound system of risk management and internal control, which implements the policies adopted by the Board, and that Hills risk management and internal control systems are operating efficiently and effectively in all material respects in relation to financial reporting risks. The external auditors attend each Annual General Meeting to answer any questions from shareholders.

**Principle 5: Make timely and balanced disclosures**

Hills has established, and complies with, the Communication and Market Disclosure Policy to ensure the market is informed of matters in compliance with the ASX Listing Rules disclosure requirements. A copy of the policy is available on the Hills website at <http://www.hills.com.au/about-us/governance>.

**Principle 6: Respect the rights of shareholders**

Hills provides its shareholders with high quality, relevant, factual and useful information in a timely manner and encourages shareholders to access this information primarily from the Hills website. Shareholders are encouraged to make their views known to Hills and to directly raise matters of concern. The Annual General Meeting remains the main opportunity for shareholders to comment on, and to question, the Hills Board and management, and shareholders are encouraged to attend.

Hills seeks questions from shareholders in its notice of meetings in written format which are then addressed at the meeting. Shareholders are also encouraged to ask questions and participate in Annual General Meetings both during the formal part of the meeting and then following the meeting informally. In other communications to shareholders they are encouraged to contact the Company Secretary if they need further assistance.

Our share registry has the facility to handle communications electronically and shareholders are encouraged to do so. However, Hills also continues to communicate through the postal service or on the telephone for shareholders who do not have access to a computer.

**Principle 7: Recognise and manage risk**

Hills does not have a dedicated Risk Committee, however, the Hills Audit Risk and Compliance Committee (“AR&C”) oversees risk. Details of the AR&C Committee are outlined at Principle 4 above.

The AR&C Committee review the Hills risk management framework annually in June each year. The Hills Board also considers risk in developing and implementing strategy and monitors appropriate mitigation strategies that have been put in place.

Hills has established policies for the oversight of material business risks. These policies are designed to ensure that strategic, operational, compliance, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of Hills business objectives.

The Board has directed management to design, assess, monitor and review the risk management and internal control framework in place to manage risks. Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management functions.

The Board requires management to provide reports during the financial year as to effective management of material business risks. During the financial year, the Audit Risk and Compliance Committee, the Board and relevant management were provided with reports on material risks, including an assessment of the inherent risks, and the effectiveness of controls in place to manage such risks where possible. During the year our risk review did not identify any material environmental, economic or social sustainability risk.

The Company has an internal audit function which provides the Board with additional confidence in the integrity of the Company's control environment. The AR&C Committee reviews the internal audit reports and monitors the remediation of any control weaknesses.

The AR&C Committee reviews the annual insurance program to ensure Hills insurable risks are covered by appropriate insurances.

**Principle 8: Remunerate fairly and responsibly**

The Board has established a Remuneration Committee whose primary responsibility is to consider remuneration strategy and policy and to make recommendations to the Board that are in the best interests of Hills and its shareholders. The Committee monitors recruitment and development policies which encourage workplace diversity across individual characteristics, backgrounds and skill levels

Members of the Remuneration Committee are:

- Philip Bullock (Committee Chairman)
- David Moray Spence
- Jennifer Helen Hill Ling; and
- Ian Elliot.

All members of the Committee are Non-Executive Directors and Philip Bullock, David Spence and Ian Elliot are independent.

The Committee operates in accordance with its Charter, which is available on the Hills website at <http://www.hills.com.au/about-us/governance>.

The Remuneration Committee met three times in the 2016 financial year. The attendance of the Remuneration Committee members is as follows:

Committee Member	Number of Meetings	Number of Meetings Attended
Philip Bullock*	1	1
David Moray Spence	3	3
Jennifer Helen Hill Ling	3	3
Ian Elliot	3	3

\* On the 22 February 2016 Mr Philip Bullock was appointed to the Remuneration Committee as Chair and Mr David Spence resigned as Chair.

Further information on Directors' and senior executives' remuneration, including principles used to determine remuneration, is set out in the Directors' report on pages 15 to 33.

Hills has comprehensive performance guidelines in place. For the period, each senior executive has had their performance assessed against clearly defined objectives and measures developed through the overall process of performance management.

On an annual basis the Board conducts a review of Board, Committee and individual member performance along with a review of Director Independence.