

CEO Address

Thank you for the introduction Jenny and good afternoon ladies and gentlemen.

As outlined by Jenny, the past 12 months continued to deliver challenges to our business which impacted our performance and which we have needed to address.

In many instances these have not been easy decisions but have been necessary to ensure the future success of Hills.

We have focused our attention on continuing to deliver improvements in our overall business and implement the strategies we believe will deliver the best outcomes for our customers, suppliers, vendors, shareholders and staff.

With the strategies and planning we now have in place, which I will outline today, we anticipate being in a position to deliver a trading profit in the second half of the financial year 2018 ("FY18").

At last year's AGM, I made it clear that the Hills team and I would work tirelessly to ensure that Hills regains its position as a major force in the markets we service today. That commitment has not waived over the past 12 months and will not waiver into the future.

As you will be aware, Hills has over the years diversified and divested, expanding our product range to include Audio Visual, Communications, Security, Fire, Nurse Call and Patient Engagement. Importantly for the future, our focus has remained constant. We are committed to delivering technology solutions into the environments that people need and trust most - their homes, hospitals, places of learning, entertainment venues, retail spaces, workplaces and government institutions.

As part of our emphasis on achieving continuous improvement, we needed to have a clear vision for the Company which is focused on the end-to-end delivery of building infrastructure technology solutions that "Connect, Entertain and Secure people's lives." The Hills mission has also been re-established and "We will add value by choosing the best products and solutions available while delivering high quality service, advice and expertise for all of our stakeholders."

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During the year under review, we also took the opportunity to involve our staff in the establishment of the Company's core values. This was an important focus for the management team and myself as with so much change over the past 3 to 4 years it was important to determine the values that the staff believed were key to shaping the future of your Company.

We had over 70% of our staff contribute to this survey which meant more than 470 employees were involved which in turn demonstrated the importance of this process to our staff.

The Company's core values have now been established in partnership with staff and management and they are:

- **Customer** – Enhance customer experience and deliver what we promise;
- **People** – Respect, accountability, teamwork, integrity & safety;
- **Quality** – Excellence in all we do, innovate and create better ways to partner; and
- **Have Fun** – Celebrate at work and in the community.

This vision, our mission and values now form part of every new employee's induction when joining the Hills team and can be seen throughout our offices across ANZ.

As a result of the new values, our employees have looked at opportunities to give back to the community, and as a result we have recently announced the establishment of a relationship with the "Make a Wish" foundation - enabling Hills staff to become involved in community based activities.

The Hills Group has now established 3 key business growth categories covering:

- *Healthcare;*
- *Security Surveillance & Communications; and*
- *Audio Visual.*

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All 3 markets present opportunities for Hills individually but also present opportunities for the Company to leverage a total solutions capability within our Health Business.

Central to the ongoing success and continued growth of the Hills Health Business is our Patient Engagement and Nurse Call Solution business.

As Jenny outlined earlier, our Health business continues to go from strength to strength and today we have over 18,000 beds under management in our patient engagement services business and expect to see this grow to 20,000 beds this financial year based on recent wins.

Hills also has over 900 facilities running our Nurse Call Solution in Australia. We currently have over 5 million in our forward order book and a very strong pipeline ensuring that the momentum in this business will continue and grow over the next 12 months.

As highlighted by Jenny, we will continue to invest in the research & development (“R&D”) of our Nurse Call platform and continue to deliver options for our Patient Engagement business including guest Wi-Fi and bring your own device (“BYOD”) solutions.

SECURITY SURVEILLANCE & COMMUNICATIONS

The hard work is now paying off within our Security and Surveillance business which has seen improved product margins in the first quarter of the current financial year.

Today, the Hills security, surveillance and communication business has over 9,000 transacting customers and ships more than 150,000 products, including over 36,000 security cameras. Our exclusive relationship with Genetec continued its momentum in financial year 2017 (“FY17”), with over 200 new sites installed across Australian & New Zealand including key wins as outlined by Jenny. We are continuing to win major projects and we expect this sales momentum to continue.

Our Antenna Factory, located near Adelaide, manufactured 45,000 Antenna’s and 100,000 satellite dishes in FY17 and Hills Connected Solutions completed over 40,000 fixed wireless installations across Australia.

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AUDIO VISUAL

In our audio visual market, we now have more than 2,000 transacting customers and we shipped over 50,000 products in FY17.

Our Australian Monitor business sold over 113,000 products in FY17 and we are expecting this to grow now that we have completed the refresh of the entire product line. This offers us exciting opportunities not just with the Australian & New Zealand markets but Europe, South East Asia, the Middle East and US.

Hills will continue to invest in R&D for our Australian Monitor portfolio.

Our relationship with key brands such as Williams Sound, Community Professional Loudspeakers, Revolabs & WyreStorm continue to underpin our future opportunities for growth.

Williams Sound and WolfVision in particular grew 51% and 35% last financial year and Community Speakers is expected to grow by 40% by the end of FY17.

Recent key project wins have established momentum in this business which we don't expect to subside anytime soon.

VERTICAL MARKETS

A key part of our future strategy includes Hills becoming increasingly focused on opportunities across key vertical markets such as transportation, infrastructure & utilities, corporate & government, stadium and live productions and healthcare markets.

While we have had success in many of these vertical markets, as seen by our projectwins, it is important that we leverage our full portfolio of products and solutions, as highlighted, through our business development activities.

Our success will be underpinned by our ability to leverage our integrated services capability, common supply chain and shared services functions and of course our company-wide digital platform.

As highlighted by Jenny, one of the key vertical markets we are focused on is the healthcare sector where we believe there is a significant opportunity for Hills to deliver end to end solutions and bring to bear our full range of product and service offerings.

With our Nurse Call Solution, we are selling directly to the end user leveraging partners where necessary.

We are looking to establish relationships with our key integration partners to deliver the other aspects of our portfolios covering Security Surveillance, Audio Visual, Fire and Asset Management.

We have also recently undertaken the integration of the Genetec Platform with our Nurse Call platform for deployment at a health facility in Australia bringing together call monitoring with video management.

The Hills teams are working hard to establish our go-to-market and engagement plans to deliver on the end-to-end vision outlined.

We have already tasted success in this vertical with a recent win to supply nurse call, security and surveillance equipment into a healthcare provider in partnership with a local integrator.

This win helps validate the strategy along with a number of other opportunities underway and we are expecting to see opportunities in this vertical grow considerably over the next 12 months.

DIGITAL TRANSFORMATION PROJECT

When I became CEO, I made it clear that we needed to undertake a digital transformation project to ensure our competitiveness in the years to come.

In today's market you will hear many companies talking about digital transformation which has become the new trend in the corporate landscape.

I want to take this opportunity to outline what this project means to Hills and the benefits we see this delivering in the short, medium and long term.

The initial focus of a digital transformation project within Hills is more than delivering a new website experience. It covers everything that impacts the customer experience and is designed to not only enable customers to transact via ecommerce but also to have a comprehensive range of self-service functionality. The introduction of this platform will enable our highly talented staff to be more focused on servicing our customers and delivering value added services into the market.

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The platform has been built working with our customers, vendors and staff to ensure a consistent experience is delivered that is aligned to the experience our customers are expecting. In November, customers and vendors will be involved in the testing of the new platform as we seek further feedback prior to our official launch.

The Hills digital platform will be expanded further in FY18 to deliver maintenance, warranty services, and technical support services to our customers.

We will also provide a service centre to support our Health customers enabling them to register support tickets online, streamlining the process for support calls in what is a high service availability environment. This will benefit our Patient Engagement and Nurse Call customer base.

All of these services will be integrated into our current and future business processes and IT infrastructure to ensure our customers, staff and vendors will have a common view of information.

Now let's have a look at the future.

This is an exciting time and I am pleased to advise that the digital platform is on time and on budget and will be launched to our customers in early February.

We anticipate in Phase 1 to see an uplift in sales across our Security, Surveillance, IT, Audio Visual and Antenna business areas over the next 12 months following the launch of this platform.

Early indicators are that similar system deployments in the ANZ market have seen an uplift in sale of around 10% and therefore we are expecting a positive result from the implementation of this platform.

This is a project that I know our customers and vendors are looking forward to being launched and will help drive our future business across Australia & New Zealand.

SUPPLY CHAIN

In order to deliver on the digital experience, we also needed to improve our overall supply chain and regain full control over our ability to pick, pack and ship our products across all our lines of business.

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The current supply chain process as outlined sees us having an additional link in the delivery chain to our customers which impacts our service levels. This coupled with the additional warehouse locations at Silverwater and Lidcombe increases the complexity of our supply chain.

As we have announced we will be exiting our third party logistics operations at the end of the year and moving our operations to a new site at Seven Hills which will provide Hills with a future-proof distribution facility.

This site will provide the centralised distribution hub for the Hills business and will see the relocation of our warehouse facilities from Lidcombe, Silverwater and the third party provider into the new Seven Hills facility which will open in early January and deliver a simplified and streamlined distribution capability to service all our business divisions.

The additional benefit of this new facility will be the establishment of the new NSW super centre for our trade customers with sales, product management and technical support functions located at the facility which will enable Hills to provide a unique customer service experience to the market.

The changes to our supply chain will deliver approximate savings of \$500 thousand in the second half of FY18 and annualised saving of \$1.2 million in financial year 2019.

Hills will also look for additional savings through sub leasing of the Silverwater and Lidcombe warehouses.

The establishment of this new centralised warehouse facility will ensure that our digital platform will perform at an optimum level in servicing our customer needs.

Significantly, it will provide Hills with the platform needed to support growth in the years to come.

ADDITIONAL BUSINESS OPPORTUNITIES

During the past year we talked about a number of new initiatives that provide complementary or adjacent opportunities for Hills.

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In last year's AGM address I announced our intention to launch into the Fire and do it yourself ("DIY") markets and during FY17 we launched our HillsTrak service for asset management.

Our new Fire product announced last year was unfortunately delayed while our supplier obtained CSIRO approvals for the Australian market which I am pleased to advise has now been completed.

This enables us to push forward later this year with our launch of the fire indicator panels and associated products which offer a great opportunity to create a new complementary category within the Hills Building Technology business.

On the DIY front we are now actively selling unique security products tailored to the retail consumer market. Sight Light - best described as CCTV in a light globe - and Secure Home, a motion triggered alarm panel, are selling through our wholesale channels and we are currently working on a number of major opportunities around our Kids Video Watch.

Keeping an eye on little children, as we all know, is a full-time job and The Kids Video Watch is targeted at families with young children. It delivers secure messaging, 4G capability, Camera and Video Calls, Activity Tracker, GPS Tracking so parents can map their child's location using an app on a smartphone or tablet and even provides the ability to make calls or in the event of an emergency your child can press the SOS button all very relevant in today's society.

We will continue to look for more opportunities to expand our IProtect range in the next 12 months.

HillsTrak continues to gain momentum with not only end user customers but our integrators and partners and we have recently closed out our first major deal with a major institution and there are many more in our pipeline. This business presents a great opportunity for Hills.

CLOSING REMARKS

As Hills shareholders, you have been through difficult times over the past few years and there have been many promises made in relation to the direction of this Company.

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I hope today you have been able to see and hear that we are now delivering on these promises and the business initiatives we have outlined for FY18 are being achieved and progressed by this board, management team and staff.

During today's address I have outlined and updated you on our progress in:

- *Delivering a Hills total solution into the Healthcare market;*
- *Leveraging end to end capabilities with focus on key Industry verticals;*
- *Delivering an online digital platform for future growth and improved customer experience;*
- *Delivering control of our supply chain; and*
- *Continuing investment in R&D around our Health Portfolio and Australian Monitor.*

I look forward to keeping you informed about our progress through the current financial year.

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