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31 October 2014

Chairman's Address

Good afternoon Ladies and Gentlemen.

Welcome to our 57th Annual General Meeting.

My name is Jennifer Hill-Ling and I am the Chairman of your Company.

I would like to acknowledge the traditional custodians of this land – the Kurna people – and pay my respects to their Elders, past and present.

We have a quorum, and I declare the meeting open.

The Notice of Meeting has been distributed to all shareholders. With your consent, I will take it as read and move forward.

The minutes of last year's Annual General Meeting, held on 8 November 2013, are in order and have been signed by me and are available for any interested shareholders to review.

In addition to shareholders present here today, I can confirm that 52% of the Company's shares are represented by proxies.

Now, I would like to introduce my fellow directors with me here today:

- Ian Elliot
- David Spencer
- Fiona Bennett
- Peter Stancliffe
- Ted Pretty

I would like to particularly welcome our newest director, Philip Bullock.

Philip joined us in June this year, and has a long and distinguished career in corporate Australia. As a former senior executive with IBM, he has considerable expertise in the technology and services sector and has worked across the Asia Pacific region for over 20 years. He is also well versed in the areas of skills and innovation, having served as an adviser on Federal Government committees, including being the Chair of Skills Australia.

Philip, welcome to Hills.

I would also like to make a special mention of my colleague Peter Stancliffe, who retires as a director at the close of today's meeting. He has served 11 years with high distinction on the Hills Board.

We have appreciated his extraordinary efforts and diligence - our sincere thanks to him for his significant contribution.



asx announcement media release

31 October 2014

Joining me on stage today, are two of our executive management team, our CFO Grant Logan and our Company Secretary, Gai Stephens.

Paul Cenko, from KPMG is our auditor, and he is available to answer any audit related questions you may have.

OVERVIEW

Let me outline briefly what we will cover this afternoon.

First, I will provide an overview of our performance over the last financial year, including:

- the financial highlights;
- our strategy and the ongoing transformation of the Company; and
- the divestment of non-core assets and the investment in new businesses and assets.

Then our CEO, Ted Pretty, will go through:

- the performance of both the discontinued and continuing businesses;
- the Company direction and strategy to drive productivity and growth; and
- the outlook for this current financial year.

I will then address some corporate governance and social responsibility initiatives before we consider the formal resolutions set out in the Notice of Meeting.

We have received a number of questions from shareholders this year and Ted and I will cover the issues raised in our addresses today.

Moving now to reflect on the performance of the Company during the past 12 months and the market conditions in which we achieved considerable growth.

The financial year of 2014 was a big one for Hills.

As many of you know, and was outlined in the video we just saw, we are well advanced in transforming the Company from a diversified holding company to an integrated provider of technology and communications solutions into trusted environments including healthcare.

Over the last twelve months we have largely completed the sale of our non-core assets including the capital intensive, low margin steel manufacturing businesses, and we are focusing our efforts on opportunities around technology and the distribution of best-in-class technology solutions which can deliver higher returns.

We have a strong base in the security and audio visual sector, and have been building our capability further through a strategy of developing new products and services and through bolt-on acquisitions.

We have expanded our health technology practice, and are now the leading supplier of nurse call systems and patient entertainment in Australia.



asx announcement media release

31 October 2014

Overview of Performance

Our Executive Team is well established and driving business efficiencies and sales across the board. We are focused on seeking growth in our core health, security, automation and networking businesses by adding new products and services into the mix and by acquisition.

The financial year of 2014 was however a difficult one for the Australian economy. World conditions were tough but we performed well.

Our underlying net profit after tax was at the top end of market consensus at \$27.3 million, up 42.2% on the prior year. That was before adjustments and costs associated with our acquisitions, as well as gains and expenses associated with the sale of non-core assets.

After taking those costs and expenses into account, we reported a statutory net profit after tax of \$24.8 million, up \$118.9 million on the previous year.

We had total revenues of \$737.2 million which included a contribution from the steel assets for 8 months and some of the smaller businesses which were sold during the year.

The revenue from our continuing businesses (which we are focused on expanding, other than a few small businesses) was \$415.5 million, up 16.6% on last year. Ted will walk you through the details of these continuing businesses and the numbers shortly.

Our total earnings before interest, taxes, depreciation, and amortization (**EBITDA**) was \$50.9 million and our continuing businesses recorded an EBITDA of \$42.9 million, up 41.6%.

The Company's underlying earnings per share was 11.4 cents per share - up 46% against last year.

The return on funds employed (defined as full year underlying EBIT divided by Hills Funds employed) was in excess of 20%.

Dividends

The next important topic of the afternoon is dividends which were increased from last year.

As shareholders would be aware, we paid a fully franked dividend of 3.25 cents on 27 September 2013. We also paid a fully franked dividend of 3.4 cents a share in March 2014 and a further fully franked dividend of 3.6 cents a share in September 2014. This is equivalent to 66% of our net profit after tax attributable to owners.

The Board has reconfirmed its intention to target an annual dividend payout ratio of between 50-75% of the net profit after tax, subject to acquisitions and working capital requirements.

Given the Company's accumulated tax losses following the restructure, we do not expect to be in a position to frank dividends in the short to medium term.



asx announcement media release

31 October 2014

Share Price and Buyback

Our share price closed at \$1.34 yesterday which was disappointing, having seen it exceed the \$2.00 mark on a number of occasions during the year in review.

We believe that the shares continue to be undervalued given the value of our assets, business capability and strong capital position.

Since recommencing the on-market share buyback in September 2013, we have purchased 14.5 million shares – or 5.9% of the shares on issue.

The average price paid since re-commencing the buyback last financial year currently stands at \$1.75 per share.

The buyback has been EPS accretive to date and to the benefit of all shareholders.

As part of our capital management strategy, we will continue to monitor any future buybacks having regard to any trading restrictions and our need to retain sufficient funding capacity for future acquisitions and dividends.

STRATEGY

The strategy of the Company remains based on creating value by being focused on delivering technology based solutions into trusted government, enterprise, business and residential markets in growth segments such as health, security and access control.

As I mentioned earlier, we are focused on achieving business growth through innovation, product development and by acquisition.

We hold market leading positions in building technologies and our health division is now the largest provider of nurse call solutions and patient entertainment businesses in Australia – and performing accordingly.

At the beginning of the 2014 financial year, the Hills Board confirmed our aspirational settings to be achieved over the following three years - including:

- Deriving 75% of revenues from technologies and communications
- Sustained earnings growth
- Return on funds employed of 13-15%
- Earning 20-25% of revenues from services

At the end of the 2014 financial year we had met the first 3 of these objectives and are on target to meet the fourth.

The Board continues with management to tune our strategy and objectives and Ted will shortly provide you with an update on this.



asx announcement media release

31 October 2014

Acquisitions and Divestments

Moving now to divestments and acquisitions during the period in review.

In August last year, we completed further sales of non-core assets with LW Gemmell – a commercial plumbing business – and the sale of the capital and resource intense Fielders and Orrcon businesses to BlueScope Steel, took place at the end of February this year.

In April, we completed the sale of UHS Systems to UTC, as well as the sale of OptiComm to our joint venture partner.

Consistent with our strategy, we strengthened our presence in the building technologies sector through the acquisition of the audio visual company APG, the security business OPS and the New Zealand security player Intek - further leveraging our expertise and extensive distribution footprint in Australia and New Zealand.

We continued our growth in the healthcare space, with Questek, strengthening our nurse call capabilities off the back of the purchase of Merlon in September 2013. Together with our patient entertainment business HTR, the foundations of Hills Health Solutions are very strong. Our healthcare technology offering alone ensures we have a presence in over 600 aged care facilities and 350 hospitals.

Through all of this activity, our approach to managing our businesses continues to be active and disciplined, and always with the intent of maximising value to shareholders.

LEANER OPERATING MODEL

In the wake of the substantial changes we have undertaken across the Company, we have reduced the structural complexity of the business and delivered a strong balance sheet.

The sale of the steel businesses has led to a significant reduction in our environmental footprint, safety and business risks.

Operating complexity has also been reduced, as we have moved the business towards largely being a B2B or business to business technology model.

As at today we have minimal net debt and significant excess facilities available. We are in discussions with all of the major banks about implementing a new longer-term facility that is consistent with Hills' growth plans.

Undeniably, we have set ourselves up for growth and Ted and his team are actively assessing a number of bolt-on and larger acquisitions to deliver ongoing growth and financial returns for decades to come.

Finding a transformational large acquisition is no small feat, and requires us to find the right strategic fit at the right price.

The financial and investment community has acknowledged that we have largely completed our restructure and transformation and earlier this month the global rating agency Standard and Poor's and the ASX reclassified Hills from an industrial 'capital goods' company to an 'Information Technology' company. This is a significant development.



asx announcement media release

31 October 2014

Innovation

We were proudly named one of Australia's Most Innovative Companies by the BRW magazine earlier this month – Hills is ranked 20th on this list, which recognises 50 of Australia's most innovative businesses and for two consecutive years we have been awarded the Reader's Digest's Australia's Most Trusted Iconic Brand.

We are driving new technology development in our business that supports innovation, and ultimately improves our product range.

A Product Innovation Roadmap has been firmly entrenched throughout 2014, and is setting a company-wide standard of excellence for new product introductions. It is delivering better customer engagement, improved product collateral and marketing to help drive sales and better training for our sales team.

This process has seen the development and introduction of 28 new products in our technology business over the last twelve months, adding \$2 million to our revenue stream.

As a business, we are actively seeking out and investing in tomorrow's talent as well as nurturing the innovation mindset and culture inside the company. This includes the opening of our own Innovation Centre in Adelaide - in May this year in collaboration with the South Australian Government, UniSA, Flinders University and the University of Adelaide to drive innovation.

One of the first projects being developed in our design centre is a new nurse call handset for aged care residents living with arthritis.

In summary, the structural transformation of the Company is largely complete and we are well positioned to deliver our 'One Hills' strategy focusing on technology and innovation. The past 12 months has seen our operating performance improve strongly. Whilst we see some challenges, in the coming 12 months we are well placed to build on the momentum established by Ted and his team in financial year 2014.

I now hand over to Ted to take us through the performance of the businesses as well as the future outlook and growth strategy for the Company.

[Group Managing Director & CEO Address]

CORPORATE GOVERNANCE

Before we move to the formal part of today's meeting – I would like to address a couple of issues around Corporate Governance and our Corporate Social Responsibility agenda.

With the ongoing change in your Company, we reviewed our values during the period.

Five key values underpin the way we operate. We strive:

- to be open to new ideas and innovation;
- to be accountable to all our stakeholders and be committed to seeing things through;
- to work safely and considerately;



asx announcement media release

31 October 2014

- to act with honesty and integrity; and
- to grow the business and as individuals – delivering sustained earnings to shareholders.

We have also adopted a Diversity Policy which requires Hills to embrace differences in backgrounds, qualifications and experiences and also differences in approach and viewpoints. This stretches right across areas such as gender, age, ethnicity, cultural background, language, and disability.

Throughout 2014, we met our objective of having over 20% of our workforce being women. Our goal was exceeded as women made up 32.5% of our workforce, but we can and must do better.

A diverse organisation makes for a better workplace and ultimately, I think an organisation that is diverse will be better equipped to anticipate and respond to the needs of our customers and drive revenue and profit results.

Our Annual Report provides more detail on these important initiatives, and information is also available through our website.

Remuneration

I would briefly like to touch on the issue of remuneration. The Board is cognisant that executive remuneration is an issue of significant and sustained interest for shareholders, and quite rightly so.

We have continued our strong focus on developing a high performance culture. High performance requires excellent leadership, with the right people in the right roles, working collaboratively towards shared objectives. It is also about enabling and empowering people to achieve their potential and having an appropriate recognition and reward framework based on performance.

The Board is committed to ensuring the Company's remuneration framework is tied to delivering the growth strategy and in creating enduring shareholder value over the long term.

Last year we received a 26.5% vote against the Remuneration Report. During the year we have met with corporate governance advisers and some of our shareholders to understand their concerns and I can report that we have made substantive changes to the level of disclosure and clarity of the Remuneration Report this year.

I will address this matter again later in the meeting but I am pleased to report that following the changes made to our reporting, we have received favourable feedback on this year's Remuneration Report.

As in prior years the Board engaged external independent advisors to provide comparative data for the senior executive roles in Hills. The data confirmed that whilst some senior officer salaries are at the top end - executive remuneration for our Company is competitive and reflects the levels required to attract and retain highly experienced executives, required to drive the restructure and transformation of your Company and implement the Company's growth strategy to deliver shareholder value.



asx announcement media release

31 October 2014

Details of the Short Term Incentive and Long Term Incentive schemes are contained in the Annual Report.

There has been no general increase in the Board Fees since September 2008, other than an increase in the fees for each of the Committee Chairman and members of the Audit, Risk and Compliance Committee effective from 1 June 2013 in recognition of the increased workload required as a result of the transformation and restructuring of the Company. Total fees remained well below the fee pool previously approved by shareholders in 2010.

CLOSING

In closing, I want to thank you all for coming today.

There's no doubt, we have turned the corner and Hills is set for growth with a firm focus on communications and technology solutions in the health, security and audio visual sphere.

We are market leaders in the technology segments we operate in and our focus for this year is to continue the momentum we built in the last financial year.

That means:

- improving our customer relationships;
- building out our service offering further to increase recurring revenues; and
- building partnerships with key stakeholders like government, big business and our key installer customer base.

I would like to thank the executive team for their commitment throughout this year. Ted, you and your team's passion is the driver behind our business and your contribution is immense.

To my Board colleagues, thank you for your valuable direction, advice and support to me and the Management team during the past year.

Our path to revenue growth is clear and we remain committed to delivering sustainable growth and optimising shareholder value as we continue implementing the Company strategy.

On behalf of the Board and Management, I thank you for your support during the year and assure you of our dedication to position the Company for growth and the delivery of superior returns.

Thank you.

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