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Group Managing Director & CEO Address

Thank you Jenny and good afternoon. I am pleased to have this opportunity to address the shareholders at this, my third AGM.

I would like to provide a review of the FY14 year and then comment on the restructure, our operating performance, segment results and our strategy and outlook.

As shareholders would be aware, we are now an integrated solutions company providing solutions into trusted environments such as universities, schools, hospitals, aged care, public institutions, enterprises and into the home. Hills is no longer a diversified investment company.

As the Chairman mentioned, Standard and Poor's has now assigned Hills to the Global Industry Classification (or GIC) of the Information Technology sector (Electronic Equipment and Instruments). This represents a key step towards recognition by the financial markets that we are now a different company, operating within the technology growth sector.

In addition, the Chairman mentioned we have been recognised as one of the top 20 Innovative companies in the country by BRW. Whilst this recognition is pleasing, management know that we are still at the beginning of our journey towards creating the best technology company in our class. We need to convert this recognition to revenue and profit.

Key observations

There are three major observations I would like to convey to shareholders today about the year in review i.e. FY14.

Firstly, during the FY14 year we completed, as shareholders expected, the sale of our steel assets and the bolt-on acquisition of other businesses in the technology sector consistent with our Hills 2.0 strategy.

Hills 1.0 was a diversified investment holding company. Hills 2.0 is a smaller, more profitable and simpler technology company focused on electronics, technology and health.

Secondly, we substantially reduced our structural and operating complexity as indicated by the Chairman. We exited non-core assets (what we call the *discontinued* businesses), put the balance sheet into good order and we made the investments into our core security, audio and health technology areas (what we call our *continuing* businesses).

Thirdly, we have set about seeking new opportunities where Hills can leverage its history, brand and balance sheet to become a leading provider of solutions into trusted environments.

Over the past 12 months we have added new brands to our existing distribution portfolio and we have identified new growth platforms we can pursue. These will help us diversify our exposure away from building technologies tied to the construction cycle. We need to do more of this.

We are focused on:

- Security and Building Technologies
- Health
- Technology Services

Now, before looking too far forward, let me reflect and report upon the detailed results for FY14, explain what now constitutes our continuing business and then provide my views on the near term outlook .

FY14 in detail

In February 2014 we completed the divestment of the Fielders and Orrcon steel businesses to BlueScope, in March the sale of UHS Systems to UTC and in April the sale of OptiComm to the joint venture partner. Consistent with our new strategy, between March and June we acquired Open Platform Systems, Intek Security and the majority of assets of Questek. These acquisitions will strengthen our core business.

We continued to make improvements in operational performance and undertook cost reductions to ensure a stronger balance sheet, low debt and solid cash flow. This was achieved with strong continuing cash flows from operations and zero gearing. In respect of the period to 30 June 2014, the Company achieved an underlying NPAT result within the revised upward market consensus issued at the half year. Importantly, the risk profile of the business has reduced with no single customer making up more than 5% of revenue and no single supplier making up more than 7% of revenues.

At the beginning of FY14, the Hills Board confirmed the aspirational settings of the Company to be achieved by FY16 including:

- 75% of revenues from technologies and communications
- 20–25% of revenues from services
- Sustained earnings growth
- Return on funds employed (ROFE) of 13–15%

In FY14 we achieved a return on funds employed (ROFE) in excess of 20 per cent in the period and our revenue from technology and communication was greater than 75 per cent.

We no longer have a need to report in the three segments you have been familiar with i.e. Building and Industrial, Lifestyle & Sustainability, Electronics and Communications. In fact it would be misleading to do so.

Hills operating segments have therefore been aggregated into one reportable segment under AASB8 (Australian Accounting Standards Board – Operating Segments) called the Hills Technologies Segment. This is also borne out by the fact that after its restructure and transformation program, Hills has actively consolidated its operating structure into what is known as a 'One Hills' approach where the business operates as an integrated business rather than a holding company owning disparate operations. The previously reported Lifestyle and Sustainability segment is no longer a material reportable segment and has been aggregated into the Hills Technologies Segment, while the businesses in the previously reported Building and Industrial Segment have been sold.

Our FY14 reporting now separates Hills results into its continuing business (the Hills Technologies Segment) and discontinuing business results.

Continuing Business

The Hills Technologies segment continues to deliver strong revenue growth, profit margins and return on assets employed. This reportable segment consists of the aggregation of a number of operating segments: Hills Electronic Security, Pacom, Lan1, Intek, OPS, Hills SVL, Audio Products Group, Hills Antenna & TV Systems, Hills Signalmaster, Hills Health Solutions (Questek, Merlon and HTR) and Hills Connection Solutions, STEP Electronics and Cygnus Satellite. The Hills Technologies segment also includes the operations of Hills Home Living on the basis that these operations are not a separately reportable segment based on materiality.

So, when customers come to Hills they are seeking to acquire products and services covering :

- Security, CCTV and video analytics platforms;
- Audio Visual and hearing loops;
- Command and control systems;
- Mobility (including high bandwidth wireless) and Communications including satellite;
- Patient monitoring, alarm and entertainment systems; and
- Specialist technology installation services.

In the future we will not be using the individual business names as we are moving to a One Hills branded strategy. It is more likely we will be reporting as one or two segments and then giving you highlights around our product areas such as security, AV, automation, health and so on.

The Hills Technologies segment reported revenue of $415.5 million for the year (FY13: $356.2 million), an increase of 16.6 per cent. Segment underlying EBITDA was $42.9 million for the year (FY13: $30.3 million), an increase of 41.6 per cent. Segment underlying EBITDA as a percentage of revenue increased to 10.3 per cent in FY14 from 8.5 per cent in FY13. These numbers reflect the leaner, more profitable operations retained by Hills in its continuing businesses.

Specific detail on each of the sub units within Hills Technologies is set out in our Annual Report.

We are also pleased with the various acquisitions made during the past 12 months, in particular the contribution made by our healthcare and CCTV bolt-ons. We have made the decision to integrate them quickly to secure any possible synergy savings.

Whilst we performed well in FY14 there are still risks in our continuing business. No company is immune from changes in the global markets, competitive threats or technology shifts. We have already and will continue to exit and renew product categories as they reach the end of product lifecycle or as declining margins make them uneconomic to supply. For example we have announced we are winding down our antenna manufacturing and supply operations in Australia due to two factors: firstly, ongoing demand is likely to be very low due to the end of the digital switchover; and secondly, the market faces significant competition from cheaper imports. In addition, we are constantly evaluating whether Hills Home Living can meet our investment hurdle rates.

Discontinued business

Now let me comment on our Building and Industrial Segment (described as discontinued operations under IFRS accounting standards) comprising Orrcon Steel and Fielders Australia. These businesses were previously classified as 'assets held for sale'. On 28 February 2014 Hills completed the divestment of Orrcon and Fielders to BlueScope Limited.

The Building and Industrial segment reported revenue of $288.9 million for the year (FY13: $525.9 million), a decrease of 45.1 per cent. Segment underlying EBITDA was $4.7 million for the year (FY13: $11.7 million), a decrease of 59 per cent. The reduction from year to year was as a result of the disposal of the segment during FY14 in line with Hills restructure and transformation program.

The other businesses sold or closed segment reported revenue of $32.8 million for the year (FY13: $136.3 million), a decrease of 75.9 per cent. Segment underlying EBITDA was $3.3 million for the year (FY13: $5.3 million), a decrease of 37.7 per cent.

New Relationships and New Initiatives

During FY14 we were successful in securing new relationships with many vibrant manufacturers and developers of technology solutions to bring them to our market. We also launched new initiatives aimed at unlocking sales potential. They included the provision of off balance sheet financing (through a third party) to customers, to acquire new technology systems under finance and operating leases. Hills takes no credit or balance sheet risk but gets the benefit of bringing forward sales that might otherwise be deferred. We see this and other such initiatives as critical to our future business.

We have also launched a number of new products in to the market which have reconfirmed our credentials as an innovative company.

Subsequent events

On 1 July 2014 the Group acquired 100 per cent of the issued shares in EMG Finance Pty Ltd and Audio Products Group Pty Ltd for $15 million. The acquisition complements and extends the Group's building technologies business in the specialised audio market.

Debt and capital management

Hills net cash as at 30 June 2014 was $8.5 million (2013: net debt of $4.0 million). Gearing, measured as net debt to net debt plus equity, stood at 1.4% in 2013 and was zero at 30 June 2014. The earliest date for review of any of the Company's bank and debt facilities is August 2015. Hills continues to comfortably meet all of its banking covenants. Today we have ample debt capacity to fund further acquisitions, buybacks, investments in product, and most importantly in significant upgrades to our branch network. We also note we are in the process of renegotiating our bank facilities to support further acquisitions.

FY14 in summary

In summary we completed FY14 a smaller but more profitable company and whilst we were pleased, if only for a day, we knew that coming into FY15 we would need to continue to reduce our overhead and operating costs and renew our product ranges at the same time as acquiring new businesses consistent with the new strategy.

These challenges are not new. Inevitably we will hit a few speed bumps along the way - to expect otherwise would be naïve.

Strategy

Our strategy remains clear: we are focused on Hills 2.0 and technology. We have a high conviction that security, well-being and health have strong domestic growth potential. Our further acquisitions in security and healthcare have been well received and that reflects the trust and faith placed in us.

Hills 2.0 will move us towards best in class service but of course there is always room for improvement.

Hills is well positioned to take advantage of future opportunities subject to the risks of global markets, competitive threats or technology shifts and operating in an uncertain economic environment. The proceeds from asset sales and divestments have provided us with a very strong balance sheet. Our strategic objective for FY15 is to use the balance sheet to make a transformational acquisition in the health or security sectors. However, we are carefully considering the appropriate timing of such a play given recent market volatility. All options remain on the table as often volatility creates opportunity.

FY15 Outlook

Now let me make a few observations on how we see the market, the first four months of trading and our outlook for FY15.

The first four months of this financial year have seen softer trading. Volumes and margins are under pressure. We have also seen continuing challenges in the commercial fit-out and construction sector. Our customers (contractors, integrators and installers) have told us they have also experienced softer demand and some have shed jobs. In addition, some are simply not making money on their projects. Some of our smaller competitors have noted the same operating conditions.

We are likely to take some additional cost saving measures. The recent volatility of and softening in the $A remains of concern. Of course, whilst we hedge a proportion of our exposure, the balance cannot always be passed through in price rises, particularly if demand is softer.

If we look to the upside we can advise that trading in the first four months for Health Solutions has been pleasing. In addition, we may get to enjoy some offsetting benefit from any smaller acquisitions we may make until overall business sentiment and activity improves.

Based on these factors we currently expect our full year FY15 underlying NPAT result (excluding any further acquisitions or divestments) to be nearer the lower end of our previous guidance range of $22m-$24m with H1 expected to be lower than H2. This assumes we experience reasonable trading months through November and December and there is uplift in business activity in the second half.

We have achieved a great deal during the last 24 months in undertaking a very public and extensive restructure and transformation whilst holding faith with our shareholders in terms of dividends and buybacks. The next 12 months will be challenging but we are committed to producing the best possible result.

New Development Centre

Finally, as shareholders may have observed, Hills has announced today it will relocate its South Australian local development and Innovation Centres, product teams and shared support service functions from Port Rd Hindmarsh to Tonsley Park.

The SA Government is committed to develop Tonsley Park into a community for collaboration between the business, education and R&D sectors as well as a hub for advanced manufacturing.

Hills has agreed to sublet its significant space at Hindmarsh to a third party and move to a more condensed footprint within the new Flinders University building at Tonsley. Flinders University will be open its new six-storey, 18,000 square metre facility in January 2015.

The move to Tonsley has been under consideration for some time and reflects a shift away from large corporate offices to collaborative space that can contribute to developing new products, creating new jobs and driving new revenues. This move will also reduce our future occupancy costs in Adelaide consistent with our focus on efficiency and deliver savings to the bottom line over time.

It is also Hills intention to consider additional medtech development and product production activities into SA and Tonsley, in particular by participating in the Federal Government's Next Generation Manufacturing Investment Programme. If achieved, it could see new medical devices developed and manufactured in SA. These discussions are underway.

If we are to grow we must reinvest for the future and initiatives such as the move to Tonsley and the major branch network upgrade are part of this strategy.

Thank you for your time today I look forward to your continuing support.

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