HILLS HOLDINGS

INVESTOR UPDATE

MARCH 2013

Hills Holdings

TODAY WE WILL COVER

- Reported numbers and the effect of business Sales & Closures
- Restructure
- Transformation
- Strategy and Innovation
- Your questions

KEY MESSAGES

RESTRUCTURE — **Largely complete**

- Targeted closures within Fielders / Orrcon complete
- Exits of Korvest, Healthcare, Solar, water tank business
- Fielders, Orrcon being actively marketed
- Savings on track to deliver as planned

TRANSFORMATION — **Well under way**

- Savings on track to deliver as planned, with re-investment in L&S and E&C innovation
- Cash flow strengthening
- Net debt below $40m at the end of February 2013
- Transformation of Hills' supply chain has begun

STRATEGY & INNOVATION — **Board approved** / **Plans being developed**

- New strategy focused on 6 growth platforms across 4 customer segments
- New leadership team in place
- FY14 Budget and FY14-16 Plan in preparation including growth and acquisitions strategy
- New strategic and financial settings

Hills Holdings

REPORTED NUMBERS AND THE EFFECT OF BUSINESSES CLOSED & SOLD

(A$m)	AS REPORTED 1H FY13	AS REPORTED 1H FY12	EXCLUDING SOLD & CLOSED BUSINESSES[4] 1H FY13	EXCLUDING SOLD & CLOSED BUSINESSES[4] 1H FY12
Sales and other revenue	551.3	552.6	505.0	497.9
EBIT before CGU impairment, restructuring and closure costs and other associated impairments[1]	15.7	24.5	12.5	18.4
NPAT attributable to owners before CGU impairment, restructuring and closure costs and other associated impairments[2]	8.2	15.0	7.1	12.3
Cash Flow from operating activities	31.7	8.0		
Net Debt[3]	90.5	92.4		

1. EBIT before CGU impairment, restructure and closure costs and other associated impairments for the half-year ended 31 December 2012 of $15.7M is a non-IFRS measure calculated as: EBIT loss for the year of ($94.6M) adjusted for impairment and restructure costs of $110.3M. Adjusted results in the columns to the right are calculated on a similar basis but exclude businesses sold or closed.

2. Net profit after tax (NPAT) attributable to owners before CGU impairment, restructure and closure costs and other associated impairments for the half-year ended 31 December 2012 of $8.2M is a non-IFRS measure calculated as: NPAT loss attributable to owners of ($73.6M) adjusted for impairment and restructuring costs of $81.8M after tax. Adjusted results in the columns to the right are calculated on a similar basis but exclude businesses sold or closed.

3. Net debt in the comparative reflects the position as at 30 June 2012.

4. Excludes Korvest, Healthcare and Solar.

The non-IFRS measures used by the Company are relevant because they are consistent with measures used internally by management to assess the operating performance of the business. The non-IFRS measures and adjusted columns have not been subject to audit or review.

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REPORTED SEGMENTS AND THE EFFECT OF BUSINESSES CLOSED & SOLD

	AS REPORTED		EXCLUDING SOLD & CLOSED BUSINESSES[1]	
Sales (A$m)	**1H FY13**	**1H FY12**	**1H FY13**	**1H FY12**
Electronics & Communications	181.8	161.2	181.8	161.2
Lifestyle & Sustainability	65.6	72.6	51.9	56.4
Building & Industrial	303.4	318.4	270.8	279.9
Other	0.5	0.4	0.5	0.4
TOTAL	551.3	552.6	505.0	497.9

	AS REPORTED		EXCLUDING SOLD & CLOSED BUSINESSES[1]	
EBIT[2] (A$m)	**1H FY13**	**1H FY12**	**1H FY13**	**1H FY12**
Electronics & Communications	11.8	15.5	11.8	15.5
Lifestyle & Sustainability	0.6	6.3	0.6	5.0
Building & Industrial	3.5	2.4	0.3	(2.4)
Other	(0.2)	0.3	(0.2)	0.3
TOTAL[2]	15.7	24.5	12.5	18.4

1. Excludes Korvest, Healthcare and Solar.
2. Before CGU impairment, restructure and closure costs and other associated impairments (as reconciled on the Financial Overview slide)

Hills Holdings

REPORTED SEGMENT ASSETS & LIABILITIES AND THE EFFECT OF BUSINESSES CLOSED & SOLD

	AS REPORTED		EXCLUDING SOLD & CLOSED BUSINESSES[1]	
Working Capital (A$m)	**1H FY13**	**1H FY12**	**1H FY13**	**1H FY12**
Electronics & Communications	57.6	58.9	57.6	58.9
Lifestyle & Sustainability	25.5	37.1	18.4	25.8
Building & Industrial	126.7	150.7	112.5	133.1
Total[3]	**209.8**	**246.7**	**188.5**	**217.8**

	AS REPORTED		EXCLUDING SOLD & CLOSED BUSINESSES[1]	
Non-Current Assets (A$m)	**1H FY13**	**1H FY12**	**1H FY13**	**1H FY12**
Electronics & Communications	60.4	52.1	60.4[2]	52.1
Lifestyle & Sustainability	41.9	54.9	35.3[2]	40.5
Building & Industrial	52.2	107.6	35.0[2]	90.3
Total[3]	**154.5**	**214.6**	**130.7**	**182.9**

1. Excludes Korvest, Healthcare and Solar.
2. Includes Land and Buildings of $15.8m in E&C; $27.5m in L&S and $25.1m in B&I.
3. Excludes Corporate allocations in order to highlight the change in direct segment working capital and non-current assets as a result of businesses sold or closed. Corporate unallocated Land and Buildings at 1H FY13 was $20.6m.

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RESTRUCTURE
&
TRANSFORMATION

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RESTRUCTURE LARGELY COMPLETE, WITH REMAINING EXITS ACTIVELY MARKETED

TARGETED CLOSURES	FIELDERS QLD	Closed
	FIELDERS ADELAIDE	Consolidated sites
	ORRCON BRANCHES	Being finalised
EXITS	SOLAR HW	Exited
	HEALTHCARE	Sold
	TEAM POLY (Water Tanks)	Sale agreement signed; crushing business retained
	KORVEST	Stake sold via Book Build
	FIELDERS	Lazard engaged - at IM stage
	ORRCON	Lazard engaged - at IM stage

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CASH FLOW STRENGTHENING AND NET DEBT BELOW $40M (END-FEB)

	A$M
Debt facilities renewed, earliest maturity is now FY15	
Net Debt – reported as at June 2012	**92.4**
Net Debt – reported as at December 2012	**90.5**
Net Debt – as at February 2013 (well within covenants)	**<40.0**
Total Facilities (subject to specific covenant limitations)	**202.7**

Operating Cash Flow – Jan and Feb improved on the favourable first half position but working capital in the Steel businesses can change materially through seasonal and other factors.

Dividends – Directors will consider the distribution of a dividend at the full year subject to market conditions and working capital requirements.

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RESTRUCTURING AND TRANSFORMATION CHARGES IN-LINE WITH EXPECTATIONS

	SEGMENT	COURSE OF ACTION	IMPAIRMENT CHARGES A$M
RESTRUCTURE	BUILDING & INDUSTRIAL	Orrcon: Structural adjustments and branch consolidations Fielders: Consolidation of plants and closure of non performing branches	75.3
RESTRUCTURE	LIFESTYLE & SUSTAINABILITY	Hills Solar: Withdraw from the Solar Hot Water specific product range Poly-ethylene business: Restructure Consolidate activities into fewer premises	19.7
RESTRUCTURE	ELECTRONICS & COMMUNICATIONS	Simplify the division structure	5.7
TRANSFORMATION	TRANSFORMATION 1H FY13	Supply Chain Facilities rationalisation Support activities re-alignment	9.6
		TOTAL AT 1H FY13	110.3
TRANSFORMATION	TRANSFORMATION 2H FY13 (activities that could not be provided for at the half-year)	Supply Chain Facilities rationalisation Support activities re-alignment	4.5
		TOTAL FOR FY13	114.8

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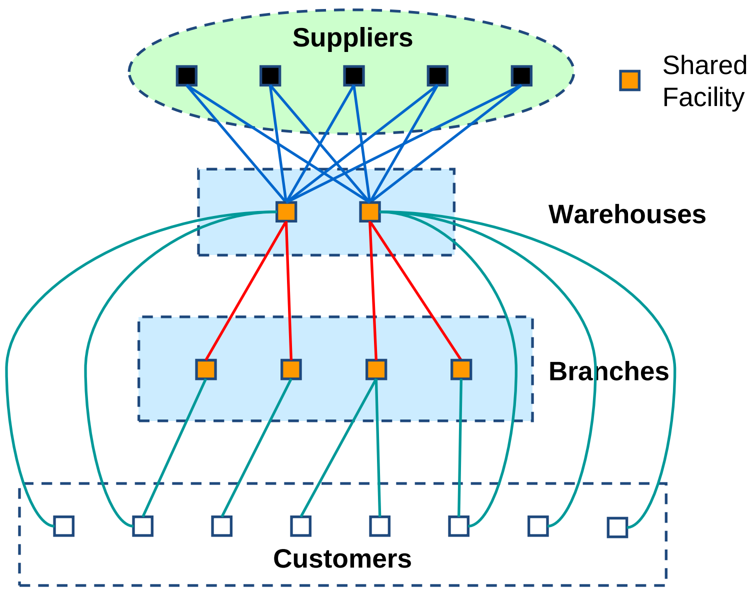
SUPPLY CHAIN TRANSFORMATION IS WELL UNDER WAY

Proposed Distribution Network Model



Warehouse facilities

- National Distribution Centres
- Less facilities saving rental and occupancy cost

Inventory

- SKUs for multiple business units in fewer places
- Consolidated and rationalised inventory
- Customer Service levels will improve

Costs

- Reduced inventory holding costs
- Reduced freight movements and costs

POTENTIAL SAVINGS IN-LINE WITH EXPECTATIONS

	SAVINGS ACTIVITY	FY13 RANGE ($M)	FY14 RANGE ($M)
RE-STRUCTURE	Reduced depreciation charges[1]	3	6
	Reduced facilities charges[2]	2	3 - 4
	Headcount, overhead and fixed cost reduction[3]	5 – 6	5 - 10
TRANS-FORMATION	Supply chain[4]	2	16 - 20
	SUBTOTAL	12 - 13	30 - 40
	Other Transformation activities	-	4 - 5
	TOTAL GROSS SAVINGS (PRE-TAX)	12 - 13	34 - 45

Associated Impairment and Restructuring Costs of $110.3m recognised in 1H FY13 plus $4.5m in 2H FY13 that could not be provided for in the half-year accounts, totalling $114.8m in FY13

1. After impairments and site consolidation.
2. Rent and lease costs after impairments and site consolidation
3. Mainly staff costs
4. Consolidation and structural changes excluding staff costs and facility cost reductions shown above.
5. Further supply chain restructuring and associated savings coming online from FY14

SOME OF THE GROSS SAVINGS ARE OFFSET BY LOST MARGIN

SAVINGS ACTIVITY	FY13 RANGE ($m, pre tax)	FY14 RANGE ($m, pre tax)
Restructure (targeted savings)	10 – 11	14 – 20
Transformation[1]	2	20 – 25
TOTAL GROSS SAVINGS	12 – 13	34 – 45
Less discontinued margin[2]	(3) – (4)	(6) – (8)
TOTAL SAVINGS	8 – 10	26 – 39

1. Further supply chain restructuring and associated savings coming online from FY14
2. Expected direct margin impact of site consolidations or closures

RESTRUCTURE & TRANSFORMATION FACILITATES RE-INVESTMENT IN GROWTH & INNOVATION

	FY13 ($m, pre tax)	FY14 ($m, pre tax)
Anticipated re-investment in Innovation and Growth	3	15

Innovation

- Ongoing investment of up to $15m in total per annum in design, innovation and development capabilities in E&C and L&S
- Payback on investment expected to phase in from the end of FY14

Growth

- Use of proceeds from asset sales used to fund acquisitions
- Focus is on complementary businesses that deliver scale and are earnings accretive

STRATEGY
&
INNOVATION

Hills Holdings

OUR VISION IS CLEAR

ONE HILLS

Growth through innovation. To be the market leader in innovative solutions for homes, businesses, enterprises and governments.

OUR SHAREHOLDERS

Deliver consistent, superior shareholder returns through focused growth and efficient and effective business practices.

OUR PEOPLE

Developing one team focused on delighting our customers using innovation, hard work and a dedication to service excellence.

WITH NEW LEADERSHIP TEAM BRINGING STRONGER CAPABILITIES & STRUCTURE

BUSINESS UNITS

Building & Industrial
Mike McKinstry
- Orrcon (Leon Andrewartha)
- Fielders (Chris Stathy)

Lifestyle & Sustainability
Matthew Campbell
- Home Living

Electronics & Communications

Technologies
Brad Newton
- Security & Surveillance
- Automation & Control

Communications
Leanne Francis
- Business Networking
- Managed Services
- Networked communities

Connected Homes (Networking & Automation)

GROUP SERVICES

- Grant Logan (CFO)
- Gai Stephens (Company Secretary)
- Greg Willis (Transformation)
- Peta Jurd (Strategic Partnerships)
- John Clifford (People)
- Colin Taylor (HSE)

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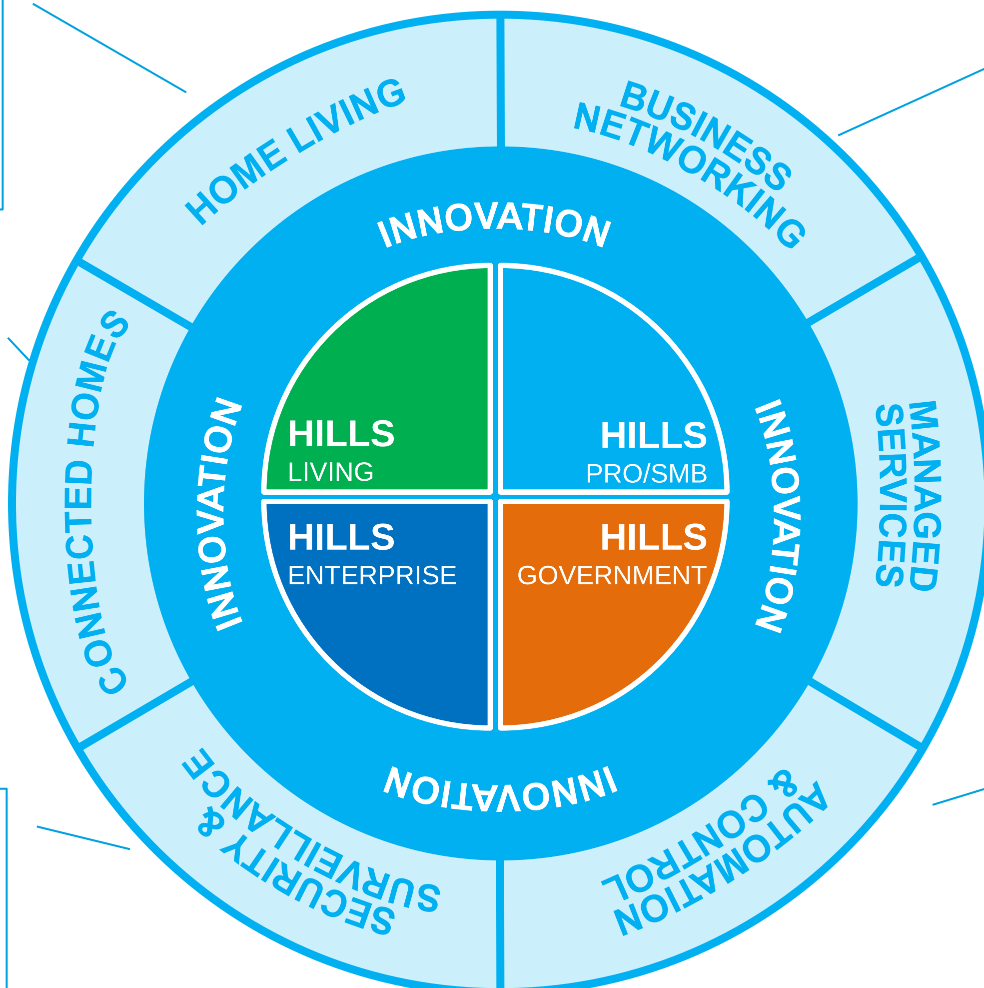
STRATEGY IS FOCUSED ON 6 GROWTH PLATFORMS ACROSS 4 CUSTOMER SEGMENTS

Re-invigorate home products through innovation, design, and execution

Leverage broadband and convergence of communications and IT to create home automation technologies and services

Physical and IT security and surveillance system design, equipment and management services



Network consulting integration and management services

LAN/WAN integration, deployment of applications and infrastructure and management of end-points

Audio, visual and lighting systems design, equipment and management services

PROCESS UNDERWAY TO DEVELOP STRATEGIC PLANS AND FY14 BUDGET

FY14 BUDGET

- Embed full year benefits of transformation program
- Overlay organic growth and innovation investments

STRATEGIC PLANS

ATTRACTIVE MARKETS

- High growth and profitable segments, products and channels
- Favourable industry and value chain structures
- Annuity-like services revenues, new business models

WHERE WE CAN CREATE & CAPTURE VALUE

- Clearly identify sustainable competitive advantages
- Deepen leverage of Hills brand across all segments
- Exploit linkages and synergies between portfolio businesses and across customer segments
- Acquisition opportunities for:
  - 'Bolt-on' capabilities
  - 'Transformative' growth, scale and capability

SAVINGS ALREADY BEING RE-INVESTED IN DESIGN, INNOVATION AND DEVELOPMENT

Re-investment of up to $15m per annum required for design, innovation and development capabilities

BRANDING:

- To reflect re-focus on innovation
- A strong Australian brand
- Across products to create consistency and leverage brand investments

MARKETING:

- To support and strengthen distribution channel performance and partners

DESIGN & INDUSTRY engaged on accelerated product release projects

- Largest and leading industrial design and product engineering consultancy in Australia
- 2 home product designs selected for rapid development (2013)

IDEO engaged:

- Award winning global design and innovation consultancy
- Review of Hills' innovation and product development capabilities
- Developing new product and service ranges for Hills

BY FY16 OUR SETTINGS WILL CHANGE TO REFLECT THE NEW STRATEGY & BUSINESS

KEY STRATEGIC SETTINGS AS OUTLINED AT THE AGM

- Move into higher growth sectors (e.g. communications and technology)
- 75% of revenue in non-steel activities by 2015
- Improve our ROFE and valuation
- Reposition the Hills brand

TARGETED FY16 SETTINGS

STRATEGIC

- Growth by complementary acquisition
- #1 or #2 in our chosen markets
- 75% of revenues from electronics and communications
- 15 – 25% of revenue service activity based

FINANCIAL

- Sustained EPS growth
- Return on funds employed > 13 – 15%
- Net debt / net debt + equity <40%
- Dividend payout ratio of 50 – 75% (fully franked)

KEY MESSAGES

COMFORTABLE WITH MARKET RANGE OF FY13 FORECAST NPAT

(A$m)	FY13 NPAT RANGE[1]	CONSENSUS[2]
Market range (Feb 2013)	17.0 – 19.1	17.9
Effect of Sale of Korvest and Healthcare	(0.8)[3]	(0.8)[3]
Market range[1] updated for Korvest & Healthcare sale	16.2 – 18.3	17.1

Subject to market conditions and before impairment and restructuring charges of $114.8m in full year FY13, Hills is comfortable with the Market FY13 NPAT range.

1. The range of the median three of the five equity analysts actively following Hills.
2. Average of the median three of the five equity analysts actively following Hills.
3. Net impact after interest savings.

KEY MESSAGES

RESTRUCTURE	**Largely complete**	❑ Targeted closures completed ❑ Most exits completed ❑ Fielders and Orrcon being actively marketed ❑ Savings on track
TRANSFORMATION	**Well under way**	❑ Savings allowing for re-investment in L&S and E&C innovation ❑ Cash flow strengthening ❑ Net debt below $40m ❑ Supply chain transformation has begun ❑ Comfortable with market FY13 NPAT range
STRATEGY & INNOVATION	**Board approved** **Plans being developed**	❑ Focused on 6 growth platforms across 4 customer segments ❑ New leadership team in place ❑ Strategic planning and FY14 budget underway, acquisitions will be targeted to accelerate strategy and fill capability gaps ❑ New strategic and financial settings

Q&A