#### HILLS HOLDINGS CHAIRMAN'S ADDRESS GENERAL MEETING 19 APRIL 2013

Good morning, ladies and gentlemen.

Welcome to our General Meeting.

For those of you I haven't yet met, my name is Jennifer Hill-Ling and I am the Chairman of your Company.

It is now 10:00am and as we have a quorum of members present I now declare the meeting open.

As part of Hills safety policy, please note the location of the exits in the theatre.

Our Company Secretary is holding apologies from two of your Directors, Fiona Bennett and Ian Elliot, and from a number of shareholders.

Let me introduce my fellow Directors who are here on the podium today.

#### On my right:

- David Spence; next to David is
- Matt Campbell; and next to Matt is
- Peter Stancliffe.

On my left is our Managing Director and CEO, Ted Pretty.

Next to Ted is our Chief Financial Officer, Grant Logan, and next to Grant is our new Company Secretary, Gai Stephens.

The purpose of today's meeting is to update you on:

- The Company's financial performance in the first half of this financial year;
- Our progress on the restructure and transformation of your Company, and savings generated by this process;
- Our vision and new strategic direction; and finally
- The planned innovation and future investment in your Company.

Shareholders who registered today and who have received a blue voting card will be given an opportunity to ask questions at the end of Ted's presentation on these items.

In addition, we have added a formal item of business; being the adoption of proportional takeover provisions in the Company's constitution.

Shareholders will be given the opportunity to ask any questions regarding the adoption of the proportional takeover provisions at the time the motion is put to shareholders for a vote.

If you wish to speak before the resolution is voted on, we have a roving microphone attendant. Please stand, introduce yourself and use the microphone.

I propose that the Notice of Meeting which was sent to shareholders, be taken as read.

In addition to shareholders present today, I can confirm that the holders of 125, 518, 503 million ordinary shares or 50.92% of the Company's shareholders are represented by proxies today.

Moving now to the financial performance of the Hills Group in the first 6 months of this financial year.

Since we met in November last year, we have continued to experience:

- Competition from imported goods due to the strong Australian dollar;
- Subdued activity in government and commercial projects;
- Volatility in retail spending; and
- Continued contraction in construction activity.

The performance construction index has now remained below the critical 50 points level (that separates expansion from contraction) for 34 consecutive months.

Our revenue for the half year was \$551.3 million. Earnings before interest and tax (also known as EBIT), and before cash generating unit (CGU) impairment, restructuring and closure costs and other associated impairments for the half was \$15.7m. The corresponding net profit after tax (or NPAT) number was \$8.2m. These EBIT and NPAT figures are non-IFRS numbers which the Company uses internally to assess the operating performance of the business.

After CGU impairment, restructuring and closure costs of \$110.3 million, we recorded an after tax loss of \$73.6 million.

This is in line with the guidance given to shareholders at the Annual General Meeting in November last year.

Having commenced the restructuring process across the Group we have maintained our conservative balance sheet and kept a tight focus on cash generation during this process. We continued to reduce the working capital across the Group and we banked the proceeds of the sale from the Healthcare Equipment business and our interest in Korvest Limited.

At the half year our net debt was \$90.5million and as at the end of February our net debt was below \$40 million.

We remain well within our banking covenants and have plenty of headroom in our current facilities to expand in areas where we see good growth opportunities.

The sales of the Healthcare Equipment business and our interest in Korvest Limited are the first phase in the implementation of the strategy outlined by Ted at the Annual General Meeting to reduce our exposure to the steel industry and to rationalise the businesses within our Lifestyle and Sustainability division.

Hills continues to explore opportunities in the healthcare industry but with an emphasis on offering products and services from within the Company's leading Technologies Division.

Since the Annual General Meeting in November 2012, the Company's share price has increased by 30% in comparison with the ASX 300 which has increased by 10% over the same period. Notwithstanding the improvement in the share price, your Board remains of the opinion that the current share price does not reflect the underlying value of our assets, our business capability and our strong capital position.

As a Board, we recognise how important the dividend is to our shareholders and, the Directors will consider the distribution of a dividend at the full year subject to market

conditions and working capital requirements. As a result of the impairment, restructuring and closure costs incurred in this financial year, any dividend at the full year is likely to be unfranked.

In respect of future dividends, our target dividend payout ratio is between 50-75% of our underlying net profit after tax.

I know ask Ted to outline our progress on:

- The implementation of the restructure and transformation of the Group;
- The savings anticipated for the balance of this financial year and the next;
- The further developments in our Group strategy; and
- Our planned innovation and investment.

In closing, let me assure you that your Board and Management Team will continue to focus on the implementation of the Group restructure and transformation, investing in our future and building sustainable earnings growth for the medium to longer term whilst maintaining our strong balance sheet and low debt levels.

I am confident we have the appropriate strategy, focus and management team to deliver this in the second half of this financial year and the next as outlined by Ted.

Finally I take this opportunity of thanking you, our shareholders, for your support and assure you of our dedication and commitment to improve the performance of your Company.

Thank you for your interest and participation.

I now declare the meeting closed and thank all those people involved in today's presentation.

I invite you all to join us for refreshments.

Good Morning.

## Welcome

## HILLS HOLDINGS GENERAL MEETING

19 April 2013

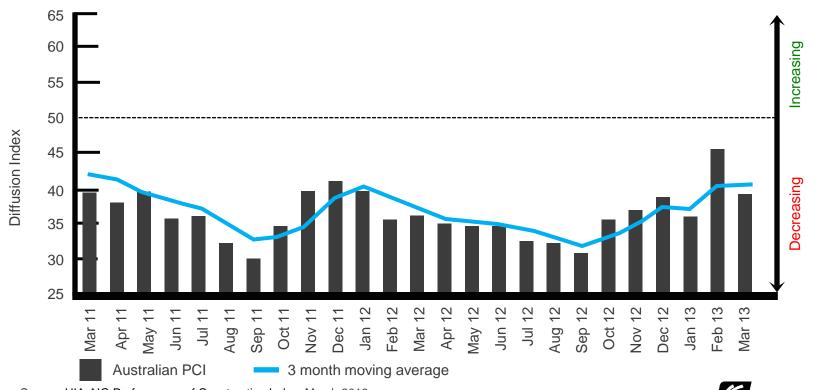


### TODAY WE WILL COVER

- FY13 First Half Results
- Restructure & Transformation
- Vision & Strategy
- Future Innovation and Investment
- Your Questions
- Adoption of Proportional Takeover Provisions



### CONTINUED CONTRACTION IN CONSTRUCTION ACTIVITY



Source: HIA-AIG Performance of Construction Index, March 2013.



### SUMMARY OF FINANCIAL RESULTS

A\$M	1H FY13
Sales and other revenue	551.3
EBIT before CGU impairment, restructuring and closure costs and other associated impairments <sup>1</sup>	15.7
NPAT attributable to owners before CGU impairment, restructuring & closure costs & other associated impairments <sup>2</sup>	8.2
Impairment and restructure costs	(110.3)
Recorded loss	(73.6)

<sup>2.</sup> 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.

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 have not been subject to audit or review.



<sup>1.</sup> 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.

### CASH FLOW STRENGTHENING AND NET DEBT

	A\$M
Debt facilities renewed, earliest maturity is now FY15	
Cash Flow from operating activities as at 31 Dec 2012	31.7
Net debt – reported as at 31 December 2012	90.5
Net debt – reported as at February 2012 (well within covenants)	<40.0
Gearing (Net Debt / ((Net Debt + Equity)) (%)	22.6%
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.





### HILLS HOLDINGS GENERAL MEETING



### SHARE PRICE

Increase in ASX 300 share price movement from Hills AGM (Nov 12) to HILLS EGM (Apr 13)

10%

Increase in HILLS share price movement from Hills AGM (Nov 12) to HILLS EGM (Apr 13)

30%





### HILLS HOLDINGS GENERAL MEETING



# Update HILLS HOLDINGS GENERAL MEETING

19 April 2013



### TODAY I WILL COVER

- ☐ How is our Company Going?
- ☐ How is the Restructure Going?
- What is our Future Strategy?
- What is the FY13 Outlook?

## HOW IS OUR COMPANY GOING?



### WE ARE ON TRACK ...

Our restructuring

is largely complete

- Targeted closures and business exits completed
- We are improving our Supply Chain

Our financial health

is getting better

- Cost and expense reduction on track but there is always more to do
- Our cash flow is strengthening
- Net debt below \$40m end February 2013 we are in good shape

Our new Strategy

is being shaped and new plans being developed

- Reinvigorating our business units to be the market leader in innovative solutions
- New leadership team in place
- FY14 Budget and FY14-16 Plan in preparation



## RESTRUCTURE UPDATE



### OUR SCORECARD IS POSITIVE

TARGETED CLOSURES FIELDERS QLD

FIELDERS ADELAIDE

ORRCON BRANCHES



Closed

Consolidated sites

Being finalised

**EXITS** 

**SOLAR HW** 

**HEALTHCARE** 

TEAM POLY (Water Tanks)

**KORVEST** 

**FIELDERS** 

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Exited

Sold

Sale agreement signed; crushing

business retained

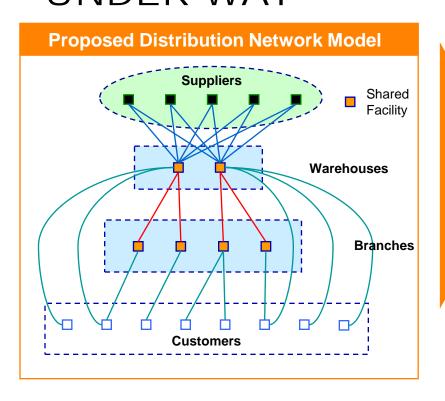
Stake sold via Book Build

Lazard engaged - at IM stage

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SUPPLY CHAIN TRANSFORMATION IS UNDER WAY



#### Warehouse facilities

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

#### **Inventory**

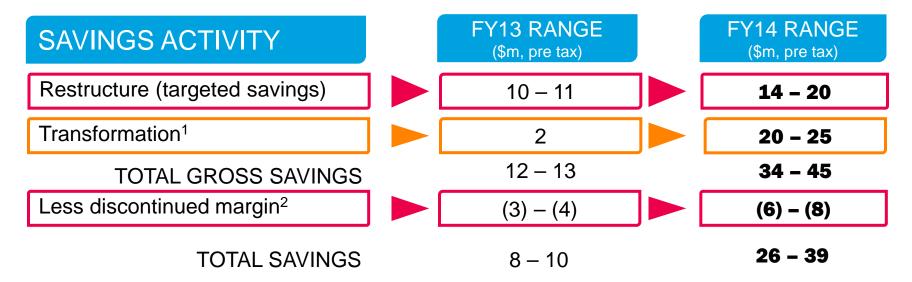
- SKUs for multiple business units in fewer places
- Consolidated and rationalised inventory
- Customer Service levels will improve

#### Costs

- Reduced inventory holding costs
- Reduced freight movements and costs



### OUR PROJECTED SAVINGS ARE CONSISTENT WITH OUR PREVIOUS GUIDANCE



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



### WE INTEND TO USE SOME SAVINGS TO RE-INVEST IN GROWTH & INNOVATION

Anticipated re-investment in Innovation and Growth

FY13
(\$m, pre tax)

(\$m, pre tax)

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



## OUR FUTURE STRATEGY



### OUR VISION IS CLEAR



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

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

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



### OUR STRATEGY WILL SEE US FOCUS AROUND 4 CUSTOMER SEGMENTS

HOMELIVING New home **Networking** products businesses MOVATION Home automation Managing secure HILLS HILLS LIVING PRO/SMB networks and technologies and HILLS HILLS services systems **ENTERPRISE** Audio, visual and **VOITAVONY** Physical and IT lighting systems security and and services surveillance

### BY FY16 OUR COMPANY WILL HAVE CHANGED

### Key strategic settings as outlined at the AGM

- Move into higher growth sectors (e.g. communications and technology)
- ☐ 75% of revenue in nonsteel activities by 2015
- Improve our returns to shareholders and valuation
- → Reposition the Hills brand

### **Targeted FY16 settings**

STRATEGIC

☐ We have grown by acquisitions

■ We are #1 or #2 in our chosen markets

□ 75% of revenues from electronics and communications

☐ 15 - 25% of revenue from services

FINANCIAL

Sustained earnings/profit growth

☐ Good returns on funds employed

**> 13 - 15**%

□ Conservative debt

□ Strong dividends



### OUTLOOK FOR FY13



### WE ARE COMFORTABLE WITH MARKET RANGE OF FY13 FORECAST NPAT

(A\$m)	FY13 NPAT RANGE <sup>1</sup>	CONSENSUS <sup>2</sup>
Market range (Feb 2013)	17.0 – 19.1	17.9
Effect of Sale of Korvest and Healthcare	(0.8) <sup>3</sup>	( <b>0.8</b> ) <sup>3</sup>
Market range¹ 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 as at 27/03/13.
- 2. Average of the median three of the five equity analysts actively following Hills as at 27/03/13.
- 3. Net impact after interest savings.



## Thank You

### HILLS HOLDINGS GENERAL MEETING

19 April 2013





### HILLS HOLDINGS GENERAL MEETING



### **AGENDA ITEM 1:**

Amendment of Constitution- Approval of Proportional Takeover Provisions

That, from the close of the meeting, the proportional takeover provisions set out in Annexure A to the Explanatory Statement be inserted into the Constitution as articles 6.9-6.14.



### **AGENDA ITEM 1:**

## Amendment of Constitution- Approval of Proportional Takeover Provisions

PROXIES	NUMBERS	PERCENTAGE OF VOTES
For:	115,098,595	91.7
Against:	7,292,971	5.8
Open:	3,126,937	2.5
Abstain:	153,948	-





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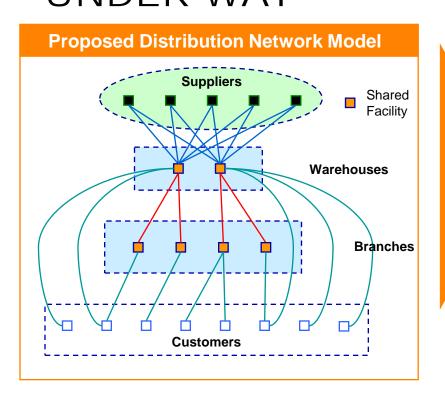
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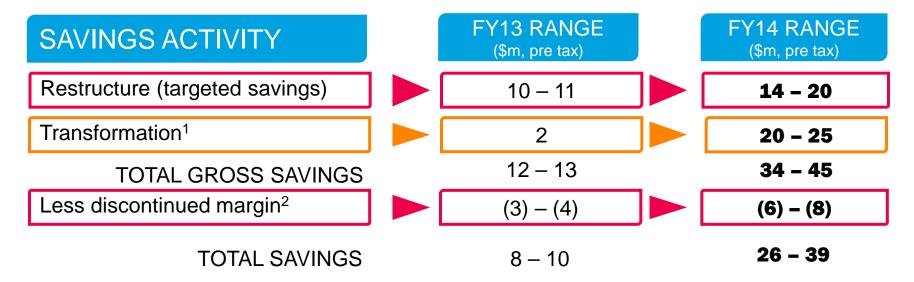
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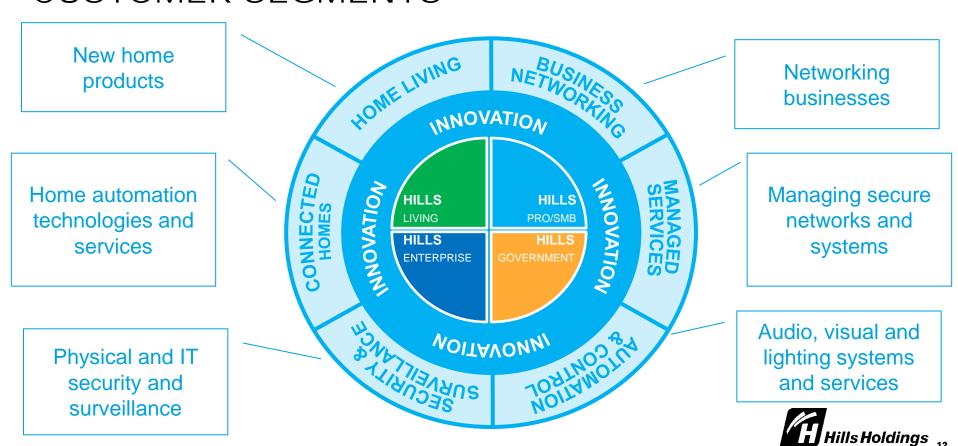
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