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Hills Limited
Interim Financial Report
for the half year ended 31 December 2017

ABN 35 007 573 417

Hills Limited

ASX information

for the half year ended 31 December 2017

ABN 35 007 573 417

Lodged with the ASX under Listing Rule 4.2A.

This information should be read in conjunction with the Annual Report for the year ended 30 June 2017.

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Hills Limited

for the half year ended 31 December 2017

(previous corresponding period: half year ended 31 December 2016)

ABN 35 007 573 417

Results for announcement to the market

	Dec 2016		Change			Dec 2017
Revenue and profit from ordinary activities (A\$'000)						
Revenue from ordinary activities	157,296	down	21,108	13.4%	to	136,188
(Loss) / profit after tax from ordinary activities attributable to owners	214	down	962	> 100%	to	(748)
Earnings per share (cents per share)						
Basic (loss) / earnings per share	0.1	down	0.4	> 100%	to	(0.3)

Net tangible assets per share

The Company's net tangible assets per share at 31 December 2017 was \$0.20 (31 December 2016: \$0.25; 30 June 2017: \$0.20).

Dividends

The Company does not propose to pay any interim dividends.

Additional information

This Interim Financial Report is the half year information provided to the Australian Stock Exchange under listing rule 4.2A. The Report also satisfies the half year reporting requirements of the Corporations Act 2001.

Refer attached press release and Directors' report on pages 3 to 5 of this Interim Financial Report for an explanation of the figures reported above.

This Interim Financial Report should be read in conjunction with the Annual Report for the year ended 30 June 2017.

Hills Limited

Directors' report

For the half year ended 31 December 2017

The Directors present their report on the consolidated entity (referred to hereafter as Hills, the Company or the Group) consisting of Hills Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2017, and the independent auditor's report thereon.

Directors

The following persons were Directors of the Company during the half year and up to the date of this report:

Jennifer Helen Hill-Ling
Fiona Rosalyn Vivienne Bennett
Philip Bullock AO
Kenneth James Dwyer
David John Lenz (appointed 19 February 2018)

Principal activities

Hills provides end to end solutions in the building technology sector, including shared services such as asset management and service capabilities, across our key vertical markets outlined below:

- Healthcare,
- Stadium and Live production,
- Transport, infrastructure and utilities
- Retail
- Banking and Finance
- Corporate and Government

Hills business operations fall into three areas:

- Hills Health Solutions
- Security, Surveillance & Communication
- Audio Visual

Hills adds value by delivering high quality service and unequalled expertise through a dedicated and highly experienced team of experts, specialising in sales, technical support, installation, internal quality and governance.

More than a distributor, Hills is a unique provider of managed services, with competencies across the sector that few others can match.

Review of operations

Statutory Result Overview

The Company recorded a net loss after tax attributable to owners of \$0.7 million for the half year ended 31 December 2017.

	Dec 2017 \$'000	Dec 2016 \$'000
Net (loss) / profit after tax, attributable to the owners of the Company	(748)	214

The net profit for the prior half year ended 31 December 2016 included income of \$12.4 million relating to the termination of the licencing agreement with Woolworths and sale of Hills Home Living assets to AMES Australasia, and an expense of \$4.395 million relating to the impairment of inventory.

Hills Limited

Directors' report

For the half year ended 31 December 2017

(continued)

Review of operations (continued)

Reduced Net Debt and Working Capital

The Group reduced its net debt by \$4.4 million in the first half of FY18, from \$20.0 million at 30 June 2017 to \$15.7 million at 31 December 2017. Working capital management remains a continued focus of the business, with a reduction in net working capital of \$10.6 million achieved in the first half of FY18. The Group's investment in net working capital decreased from \$65.7 million at 30 June 2017 to \$55.1 million at 31 December 2017.

Reduced Operating Expenses

Operating expenses¹ in the half year to 31 December 2017 were \$8.9 million below the first half of the prior year, a reduction of 18% and \$4.8 million below the FY17 second half expenses, as the changes made to 'right-size' begin to take effect. Further cost savings are expected in FY18 and beyond as key strategic initiatives and projects are completed.

Digital Transformation

Hills went live in February 2018 with its market-leading digital platform that will enable Hills to better service its customers. The new platform provides customers with key self-service capabilities, such as 24/7 e-commerce access allowing real-time inventory, customer statements, invoices, pricing, online payments, product specifications and delivery information. The new platform will also allow staff to be more engaged with our customers and vendors, increasing productivity across the organisation.

Supply Chain

Following a review of its supply chain and distribution arrangements, Hills exited its 3rd party supply chain arrangements in January 2018. Controlling supply chain is critical for Hills, particularly for the successful rollout of the Digital Transformation project. Hills opened a new central distribution facility and Trade Centre in Seven Hills, NSW, which is already benefiting customers and vendors and will increase Hills overall market flexibility.

Subsequent events

Since the balance date, Hills has re-signed a facility agreement with the Commonwealth Bank of Australia (CBA), as set out in note 7 of the Interim financial statements. There have been no other events subsequent to balance date that would have a material effect on the Group's Interim financial statements at 31 December 2017.

Dividends

No dividends were paid during the current half year or previous half year. For more information regarding dividends please refer to note 10 of the Interim financial statements.

Significant changes in the state of affairs

Significant changes in the state of affairs of Hills during the half year are set out in the Review of operations section of the Directors' report.

¹Operating expenses referred to above exclude depreciation, amortisation and net income / costs not considered part of segment EBITDA. This is a non-IFRS measure that is not subject to audit or review. This non-IFRS measure is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.

Hills Limited

Directors' report

For the half year ended 31 December 2017

(continued)

Outlook

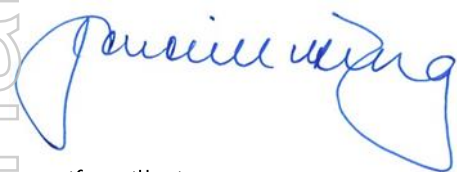
Given Hills investments, reduction of operating expenses, customer service focus, strong customer and vendor management, increased profitability of the Hills Health Solutions business and the investment in the digital transformation project, Hills expects to return a trading profit in the second half of FY18.

As with any technology distribution business, Hills is exposed to the risk of potential loss of vendors, potential loss of customers, project timing slippages associated with contracts, supply issues and exposure to foreign exchange rate fluctuations.

Rounding of amounts

The Company is an entity to which the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* applies. Amounts have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

This report is made in accordance with a resolution of Directors.



Jennifer Hill-Ling
Director



David Lenz
CEO and Managing Director

Sydney
21 February 2018



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Hills Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to be 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'S.C. Fleming'.

Scott Fleming
Partner

Adelaide

21 February 2018

Interim financial statements for the half year ended 31 December 2017

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Hills Limited
Consolidated statement of profit or loss
For the half year ended 31 December 2017

	Notes	Dec 2017 \$'000	Dec 2016 \$'000
Continuing operations			
Revenue	2	136,188	157,296
Other income	3	643	12,672
		136,831	169,968
Expenses excluding net finance expenses	4b		
Cost of goods sold (inventories)		(83,178)	(89,043)
Direct costs of services provided		(9,295)	(23,196)
Labour and related expenses		(28,472)	(35,778)
Operational and equipment expenses		(3,745)	(3,817)
Property expenses		(3,635)	(4,093)
Depreciation and amortisation	4a	(3,306)	(3,530)
Other expenses		(4,749)	(8,526)
		451	1,985
Profit before net finance expense and income tax			
Finance income		57	15
Finance expenses		(1,575)	(1,685)
Net finance expenses	4a	(1,518)	(1,670)
(Loss) / profit before income tax		(1,067)	315
Income tax benefit / (expense) from continuing operations	5	319	(101)
(Loss) / profit from continuing operations		(748)	214
(Loss) / profit for the period, attributable to owners of Hills Limited		(748)	214
		Cents	Cents
(Loss) / earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic and diluted (loss) / earnings per share	6	(0.3)	0.1

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Hills Limited
Consolidated statement of comprehensive income
For the half year ended 31 December 2017

	Dec 2017 \$'000	Dec 2016 \$'000
(Loss) / profit for the half year	(748)	214
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	130	378
Exchange differences on translation of foreign operations	(294)	49
Income tax relating to components of other comprehensive income	(39)	(114)
Other comprehensive (loss) / income for the half year, net of tax	(203)	313
Total comprehensive (loss) / profit for the half year, attributable to owners of Hills Limited	(951)	527

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Hills Limited
Consolidated statement of financial position
As at 31 December 2017

Notes	Dec 2017 \$'000	Jun 2017 \$'000
ASSETS		
Current assets		
Cash and cash equivalents	8,156	8,651
Trade and other receivables	53,511	59,489
Inventories	47,056	46,460
Current tax assets	-	229
Total current assets	108,723	114,829
Non-current assets		
Prepayments	1,313	-
Investments	2	2
Property, plant and equipment	15,379	16,600
Intangible assets	3,533	2,578
Deferred tax assets	11,172	10,917
Total non-current assets	31,399	30,097
Total assets	140,122	144,926
LIABILITIES		
Current liabilities		
Trade and other payables	45,494	40,266
Borrowings	117	295
Provisions	7,024	10,556
Derivative financial instruments	96	287
Total current liabilities	52,731	51,404
Non-current liabilities		
Borrowings	23,695	28,395
Provisions	3,701	4,196
Total non-current liabilities	27,396	32,591
Total liabilities	80,127	83,995
Net assets	59,995	60,931
EQUITY		
Contributed equity	278,439	278,439
Reserves	10,847	11,035
Accumulated losses	(229,291)	(228,543)
Total equity	59,995	60,931

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Hills Limited

Consolidated statement of changes in equity

For the half year ended 31 December 2017

Attributable to owners of Hills Limited			
Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000
278,439	11,249	(220,611)	69,077
-	313	214	527
-	15	-	15
278,439	11,577	(220,397)	69,619
278,439	11,035	(228,543)	60,931
-	(203)	(748)	(951)
-	15	-	15
278,439	10,847	(229,291)	59,995

Balance at 1 July 2016

Total comprehensive profit for the half year

Transactions with owners in their capacity as owners:

Employee share schemes

Balance at 31 December 2016

Balance at 1 July 2017

Total comprehensive loss for the half year

Transactions with owners in their capacity as owners:

Employee share schemes

Balance at 31 December 2017

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Hills Limited
Consolidated statement of cash flows
For the half year ended 31 December 2017

	Dec 2017 \$'000	Dec 2016 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	157,387	187,227
Payments to suppliers and employees (inclusive of goods and services tax)	(147,957)	(186,256)
	9,430	971
Net finance costs paid	(1,518)	(1,670)
Net income taxes received / (paid)	219	(110)
Net cash flows from / (used in) operating activities	8,131	(809)
Cash flows from investing activities		
Payments for property, plant and equipment	(1,402)	(769)
Payments for intangible assets	(1,702)	(1,645)
Proceeds from sale of property, plant and equipment and intangible assets	51	6,515
Rent received	-	4
Net cash flows (used in) / from investing activities	(3,053)	4,105
Cash flows from financing activities		
Proceeds from borrowings	1,419	10,818
Repayment of borrowings	(6,855)	(4,590)
Net cash flows (used in) / from financing activities	(5,436)	6,228
Net (decrease) / increase in cash and cash equivalents	(358)	9,524
Cash and cash equivalents at the beginning of the period	8,651	3,994
Effects of exchange rate changes on cash and cash equivalents	(137)	(2)
Cash and cash equivalents at end of the period	8,156	13,516

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2017

Section A: About this report

These consolidated interim financial statements are for the group consisting of Hills Limited (the "Company" or "parent entity") and its subsidiaries (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities").

The notes to the consolidated financial statements that follow present information relevant to understanding the Group's:

- business performance;
- capital and financing arrangements; and
- unrecognised items at the end of the reporting period (and other relevant disclosures).

Hills Limited is a for profit company limited by shares, incorporated and domiciled in Australia.

The consolidated financial statements were authorised for issue by the Directors on 21 February 2018. The Directors have the power to amend and reissue the consolidated financial statements.

Basis of preparation

These general purpose consolidated interim financial statements:

- are presented in Australian dollars;
- have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*;
- have been prepared on the same basis and in accordance with the same accounting policies adopted in the previous financial year and corresponding interim financial reporting period; and
- do not include all the notes normally included in an annual financial report and should be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Hills Limited during the interim reporting period.

Key accounting estimates

In preparing these interim financial statements, management are required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis.

In preparing this consolidated interim financial report, the judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2017.

Rounding

The Company is an entity to which the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* applies. Amounts have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2017

(continued)

Section B: Business performance

This section contains information relevant to understanding the results and performance of the Group during the reporting period:

- 1 Segment information
- 2 Revenue
- 3 Other income
- 4 Expenses
- 5 Income tax
- 6 Earnings per share

1 Segment information

Group operations are integrated into a single segment, reflective of Hills business categories, which have:

- a common customer base, covering building contractors, consultants and system integrators; and
- products and services sold primarily through common channels: building contractors and system integrators.

There have been no changes to Management's assessment of the Group's reportable operating segments during the half year ended 31 December 2017.

(a) Information about reportable segments

	Revenue		EBITDA ¹	
	Dec 2017 \$'000	Dec 2016 \$'000	Dec 2017 \$'000	Dec 2016 \$'000
Reportable segment				
Hills Limited	136,188	157,296	3,571	8,435
Total segment result²	136,188	157,296	3,571	8,435

(b) Other segment information

Segment revenue

The revenue from external customers reported to the Chief Operating Decision Maker (CODM) is measured in a manner consistent with that in the consolidated income statement. Segment revenue reconciles to total revenue per note 2.

The Group did not derive 10% or more of its revenues from any single external customer.

¹ Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS measure not subject to audit or review. Segment EBITDA excludes the impact of net income / costs associated with structuring the Company in line with its future growth opportunities. This non-IFRS measure is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.

² Total segment revenue represents revenue from external customers.

Hills Limited
Notes to the consolidated financial statements
For the half year ended 31 December 2017
(continued)

1 Segment information (continued)

(b) Other segment information (continued)

Segment EBITDA

The CODM assesses performance based on a measure of EBITDA¹. This excludes the effects of non-recurring expenditure from the operating segment such as restructuring costs and costs associated with isolated, non-recurring events which, although expensed under IFRS, are considered to otherwise distort the operational view of the business.

Segment EBITDA reconciles to the (loss) / profit before income tax as follows:

	Notes	Dec 2017 \$'000	Dec 2016 \$'000
Segment EBITDA		3,571	8,435
Depreciation and amortisation	4	(3,306)	(3,530)
Net finance expenses	4	(1,518)	(1,670)
Net costs not considered part of segment EBITDA		(232)	(2,920)
Other income not considered part of segment EBITDA		418	-
(Loss) / profit before income tax from continuing operations		(1,067)	315
Net costs and other income not considered part of segment EBITDA comprise:			
Costs related to proposed demerger of business		(121)	(2,207)
Other net costs related to the Company's restructure and transformation program		(111)	(713)
		(232)	(2,920)
Other income relating to recovery of previously written off trade debt (see note 3)		418	-
Total net income / (costs) not considered part of segment EBITDA		186	(2,920)

Segment assets and liabilities

The assets and liabilities of the reportable operating segment are as shown in the consolidated statement of financial position.

¹Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS measure not subject to audit or review. Segment EBITDA excludes the impact of net income / costs associated with structuring the Company in line with its future growth opportunities. This non-IFRS measure is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2017

(continued)

2 Revenue

	Dec 2017 \$'000	Dec 2016 \$'000
Sales revenue		
Sale of goods	113,619	119,216
Services	22,569	37,576
	136,188	156,792
Other revenue		
Rent	-	4
Licence fee revenue	-	500
Total revenue from continuing operations	136,188	157,296

3 Other income

	Dec 2017 \$'000	Dec 2016 \$'000
Net gain on disposal of non-current assets	18	6,427
Other income	625	6,245
	643	12,672

Net gain on disposal of non-current assets

The net gain on disposal of non-current assets in the prior half year ended 31 December 2016 includes a gain on the sale of Hills Home Living assets (comprising intellectual property of \$4 million and tooling, goodwill and other assets of \$2.4 million), to AMES Australasia.

Other income

Other income in the half year to 31 December 2017 includes \$0.418 million relating to the recovery of a previously written off trade debt.

Other income in the prior half year ended 31 December 2016 includes income of \$6 million received from Woolworths on termination of the licence arrangement in relation to Hills Home Living products. Deferred costs of \$0.651 million were reflected in operating expenses for the period.

Hills Limited
Notes to the consolidated financial statements
For the half year ended 31 December 2017
(continued)

4 Expenses

	Dec 2017 \$'000	Dec 2016 \$'000
(a) (Loss) / profit before income tax includes the following specific expenses:		
Depreciation	2,559	2,964
Amortisation		
Software	715	554
Development costs	32	12
Total amortisation	747	566
Total depreciation and amortisation	3,306	3,530
Finance expenses		
Interest and finance charges paid/payable	1,575	1,685
Finance income		
Interest income	(57)	(15)
Net finance costs expensed	1,518	1,670

(b) Information on expenses

Further information on expenses as shown in the Consolidated statement of profit and loss is provided below:

Cost of goods sold (inventories)	Cost of goods sold include expenses relating to the change in inventories of finished goods and work in progress, and raw materials used. Included in this balance in the prior half year is an expense of \$4.395 million relating to the impairment of inventory.
Direct costs of services provided	Direct costs of services provided include subcontractor costs, commissions and subscriptions payable, and other direct costs associated with provision of services by Group entities. This balance does not include internal labour costs related to carrying out services, which are included in labour and related expenses.
Labour and related expenses	Labour and related expenses include employee benefits expenses and other labour and related expenses such as third party logistics, labour hire, employee training and recruitment.
Operational and equipment expenses	Operational and equipment expenses include costs of freight, consumables, motor vehicle and other equipment expenses, repairs and maintenance.
Property expenses	Property expenses include rent, rates, utilities, cleaning and security expenses related to properties leased by the Group.
Other expenses	Other expenses include overhead expenses (such as insurance, advertising and marketing, professional and consulting fees, telecommunications and information technology related expenses) and other net costs not considered part of segment EBITDA of \$0.232 million (Dec 2016: \$2.920 million) (as shown in note 1b).

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2017

(continued)

5 Income tax

Income tax expense is recognised at an amount determined by multiplying the loss before tax for the interim reporting period by management's best estimate of the annual effective income tax rate expected for the full financial year, excluding the impact of tax losses for which a deferred tax asset has not been recognised. As such, the effective tax rate in the interim financial statements may differ from the effective tax rate for the annual financial statements.

The Group's consolidated effective tax rate for the half year ended 31 December 2017 was 29.9% (31 December 2016: 32.1%).

6 Earnings per share

	Dec 2017 Cents	Dec 2016 Cents
(a) Basic and diluted (loss) / earnings per share		
From (loss) / earnings attributable to the ordinary equity holders of the Company	(0.3)	0.1
(b) Reconciliation of earnings used in calculating earnings per share		
	Dec 2017 \$'000	Dec 2016 \$'000
(Loss) / earnings attributable to the ordinary equity holders of the Company used in calculating basic (loss) / earnings per share	(748)	214

Section C: Capital and financing

This section provides an update on the Group's capital structure and financing arrangements:

- 7 Borrowings
- 8 Fair value measurements
- 9 Contributed equity
- 10 Dividends

7 Borrowings

The Group has its financing facilities with Recfin Nominees Pty Ltd through a Receivables Purchase Facility and Commonwealth Bank of Australia (CBA) through a Bilateral Facility. During the half year ended 31 December 2017, the Group entered into a Progressive Payment Agreement with De Lage Landen Pty Limited (DLL).

Further details are provided below:

Receivables Purchase Facility	<p>The Recfin Nominees Pty Ltd facility totals \$36 million (denominated in AUD), with funding provided based upon the Group's accounts receivable book. The facility expires on 13 May 2021.</p> <p>The facility is secured on the Group's Accounts Receivable book, with a second mortgage over the other assets of the Group.</p> <p>Interest is charged at prevailing market rates plus a fixed margin.</p> <p>There have been no changes to this facility during the half year ended 31 December 2017.</p>
Bilateral Facility	<p>The CBA facility, which consisted of an overdraft and contingent liabilities facility (including bank guarantees), was due to expire on 13 November 2017.</p> <p>The facility was extended during the half year ended 31 December 2017 and has since been replaced with a Bank Guarantee Facility Agreement with a limit of \$4.472 million. A line fee is payable in respect of the facility and an issuance fee is payable in respect of bank guarantees issued. There are no financial covenants under the terms of the agreement.</p>
DLL Financing	<p>In December 2017, the Group entered into a Progressive Payment Agreement (PPA) with DLL for the provision of finance for equipment purchases in the Hills Health Solutions business. At 31 December 2017, the Group had drawn down \$0.975 million.</p> <p>The PPA is an unsecured, interest only facility, which will be replaced by a set term Chattel Mortgage once the equipment is installed.</p>

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2017

(continued)

7 Borrowings (continued)

At the end of the period, the Group had the following borrowings outstanding:

	Dec 2017			Jun 2017		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Loans	117	25,343	25,460	295	30,353	30,648
Transaction costs	-	(1,648)	(1,648)	-	(1,958)	(1,958)
Total borrowings	117	23,695	23,812	295	28,395	28,690

Non-current borrowings include transactions costs directly attributable to the issue of the borrowings. At 31 December 2017, unamortised borrowing costs totalled \$1.648 million (30 June 2017: \$1.958 million).

Net debt

	Dec 2017 \$'000	Jun 2017 \$'000
Total borrowings	23,812	28,690
Less: cash and cash equivalents	(8,156)	(8,651)
Net debt	15,656	20,039

8 Fair value measurements

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual report.

(a) Fair value measurements for financial assets and liabilities

The fair values of cash and cash equivalents, trade receivables, trade payables and borrowings approximate their carrying amounts due to their short term nature and the impact of discounting not being significant.

The Group measures and recognises derivative financial assets at fair value on a recurring basis.

AASB 13 requires disclosure of fair value measurements by reference to the following fair value measurement hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2017

(continued)

8 Fair value measurements (continued)

The Group's financial assets and financial liabilities at fair value are as follows:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2017				
Liabilities				
Derivatives financial instruments	-	(287)	-	(287)
Total liabilities	-	(287)	-	(287)
31 December 2017				
Liabilities				
Derivatives financial instruments	-	(96)	-	(96)
Total liabilities	-	(96)	-	(96)

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the half year.

The fair value of financial instruments that are not traded in an active market (for example, derivatives used for hedging) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. All significant inputs required to fair value derivatives used for hedging are observable, and hence the instruments are included in level 2. There have been no movements between levels during the half year ended 31 December 2017.

9 Contributed equity

There have been no changes to the capital structure of the Company since 30 June 2017.

10 Dividends

No dividends were paid during the half year ended 31 December 2017 (2016: nil) and no interim dividends have been declared.

Section D: Other disclosures

This section sets out other disclosures required or considered relevant for the interim reporting period, including:

- 11 Provisions
- 12 Property, plant & equipment and intangible assets
- 13 Capital commitments
- 14 Related party transactions
- 15 Contingencies
- 16 Events occurring after the reporting period

11 Provisions

An update on the Group's provisions is provided below:

	Dec 2017			June 2017		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Employee benefits	5,296	531	5,827	6,170	695	6,865
Outstanding claims	745	660	1,405	866	660	1,526
Restructuring costs	467	668	1,135	2,336	802	3,138
Other provisions	516	1,842	2,358	1,184	2,039	3,223
	7,024	3,701	10,725	10,556	4,196	14,752

Description of provisions and key movements

Employee benefits

Provisions for employee benefits include liabilities for annual leave and long service leave.

The provision for employee benefits has decreased in the half year due to a decrease in the number of employees and leave taken during the period.

Outstanding claims

The provision for claims comprises the amounts set aside for estimated warranty claims. In the prior year, it also included the estimated future liability of the Group's self-insurance arrangements.

There have been no significant changes in the provision for claims in the half year to 31 December 2017.

Restructuring costs

The restructuring costs provision comprises redundancy costs and other costs of closing and restructuring businesses (including onerous lease and make-good costs related to properties affected by restructure).

The decrease in the provision since 30 June 2017 is due to payment of redundancy and make good costs and the unwinding of onerous lease provisions.

Other provisions

Other provisions comprise provisions for environmental monitoring of a site, make good obligations, onerous lease costs and other provisions as required.

Other provisions have decreased since 30 June 2017 due to the settlement of claims and unwinding of onerous lease provisions.

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2017

(continued)

12 Property, plant & equipment and intangible assets

Acquisitions and disposals

Acquisitions	During the interim reporting period, the Group acquired plant, equipment and intangible assets costing \$3.104 million (Dec 2016: \$2.414 million).
Disposals	During the interim reporting period, the Group disposed of assets with a net book value of \$0.03 million (Dec 2016: \$0.1 million).

13 Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability is shown below:

	Dec 2017 \$'000	Dec 2016 \$'000
Plant, equipment and software	1,988	802

14 Related party transactions

Arrangements with related parties continue to be in place and are set out in the Group's Annual Report for the year ended 30 June 2017.

15 Contingencies

Contingent liabilities

The Group had contingent liabilities at 31 December 2017 in respect of:

Claims	<p>In consultation with the Environmental Protection Authority, ground water contamination potentially originating from the Company's former Edwardstown site continues to be monitored by the Company. It is anticipated that ongoing monitoring will be required to be undertaken by Hills. The Company has provided for the anticipated costs of ongoing assessments. There have been no material changes since 30 June 2017.</p> <p>The Group has various commercial legal claims common to businesses of its type that constitute contingent liabilities, none of which are deemed material to the Group's financial position.</p> <p>The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future outflow of economic benefits will be required.</p>
Guarantees	Bank guarantees in favour of customers and suppliers totalling \$3.432 million (30 June 2017: \$2.778 million).

Hills Limited

Notes to the consolidated financial statements

For the half year ended 31 December 2017

(continued)

16 Events occurring after the reporting period

Since the balance date, Hills has re-signed a facility agreement with the CBA, as set out in note 7. There have been no other events subsequent to the balance date that would have a material effect on the Group's interim financial statements at 31 December 2017.

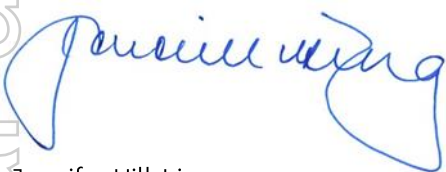
Directors' declaration

For the half year ended 31 December 2017

In the opinion of the Directors of Hills Limited (the Company):

- (a) the consolidated interim financial statements and notes set out on pages 7 to 24 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the six month period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Jennifer Hill-Ling
Director



David Lenz
CEO and Managing Director

Sydney
21 February 2018

Independent Auditor's Review Report

To the shareholders of Hills Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying Interim Financial Report of Hills Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Hills Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The Interim Financial Report comprises:

- Consolidated statement of financial position as at 31 December 2017;
- Consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The Group comprises Hills Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hills Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Scott Fleming
Partner

Adelaide

21 February 2018

Corporate directory

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Executives

David Lenz, *Chief Executive Officer and Managing Director*

Chris Jacka, *Chief Financial Officer*

Non-Executive Directors

Jennifer Helen Hill-Ling

Fiona Rosalyn Vivienne Bennett

Philip Bullock AO

Kenneth James Dwyer

Company Secretary

David Fox

Share registry

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