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media release

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First half FY14 results

Hills Limited (Hills, ASX:HIL) today announced its results for the half year ended 31 December 2013.

Results Highlights

- First half NPAT attributable to owners of $14.1M, up $87.7M on the previous corresponding period (PCP)
- First half Underlying[i] NPAT attributable to owners of $16.2M, up $8.0m or 98% on the PCP
- First half Underlying Continuing EBIT[ii] of $19.1M, up 8.1M or 74% on the PCP
- 3.25cps dividend (fully franked) paid in September 2013
- 3.40cps dividend (fully franked) declared, to be paid in March 2014
- No further impairments or restructuring charges in the half
- Net debt of $68M after acquisitions and share buybacks. Net proceeds of approximately $80M from sale of steel assets to BlueScope expected to be received in Q3 FY14
- Intention to continue share buy-back as appropriate

Hills today reported a statutory net profit after tax attributable to owners of $14.1M for the half year ended 31 December 2013. First half Underlying[i] NPAT attributable to owners of $16.2M is up 98% on the PCP (FY13 First Half Underlying[i] NPAT attributable to owners was $8.2M).

Hills Managing Director and CEO, Mr Ted Pretty, said: "We are very pleased with our first half FY14 results. All divisions have performed solidly. The results demonstrate that Hills is now a simpler and more streamlined company than it was 12 months ago and that it is well positioned to implement our 'One Hills' strategy focusing on technology and innovation".

"Whilst we continue to drive efficiencies and to streamline the cost base, we are now focused on seeking growth in our core health, security, automation and networking businesses - both organically, by adding new products and services into the mix, and by acquisition".

Restructure Complete and Transformation Continuing

The restructuring of Hills which has involved exiting non-core businesses and closing unprofitable businesses and operations is now largely complete.

No further restructuring charges and impairments are expected to be taken during FY14 as a result of the continuing transformation program.

Land and Buildings

Hills continues to make further progress in selling surplus properties.

Assets Held for Sale and Discontinued Operations

At 30 June 2013 the Board determined that based on the progress of the steel business sales process together with market interest, Orrcon and Fielders would be classified as 'held for sale' under AASB 5[iii]. Orrcon and Fielders were included as part of the Building & Industrial segment and for the half year ended 31 December 2013 have been reported as discontinued operations.

Sale of Orrcon and Fielders

The transactions to sell Orrcon and Fielders to BlueScope are expected to complete by the end of February 2014. Net cash proceeds from sale will be approximately $80M.

Net Debt and Funding

Hills net debt as at 31 December 2013 was $68M. During the period, $40.4M was spent on acquisitions and $18.1M on buy backs.

Hills has total debt facilities of $202.7M and operates well within the facility covenants.

The net cash proceeds from the steel divestments will place the Company in a surplus cash position, with capacity for further acquisitions and share buy-backs in line with the Company's strategic and financial objectives.

Dividends

The Board has declared a fully franked interim dividend of 3.4cps which will be paid on 31 March 2014 to registered shareholders as at the record date of 17 March 2014.

The Board reconfirms its intention to target an annual fully franked dividend payout ratio range of 50%-75% of net profit after tax attributable to owners.

Given Hills' strong balance sheet position the dividend reinvestment plan remains suspended.

On-market Share Buy-Back

During this half year Hills acquired 9.9M shares. Hills has the ability to acquire up to an additional 14.8M shares over the next seven months. Any decision to buy back further shares will take account of the impact on earnings per share and will not affect the Company's existing dividend policy.

Safety

Safety is a priority for Hills and the safety performance across the Company for the six-month period from 1 July 2013 to 31 December 2013 resulted in a 17% decrease in the Lost Time Injury Frequency Rate.

Subsequent Event

On 14 February 2014, the Group agreed to sell all of its interest in OptiComm Co Pty Ltd (OptiComm) under the terms of its existing shareholder agreement. The sale is expected to be completed during the third quarter of the financial year subject to customary terms and conditions precedent. OptiComm is included as a business held for sale in the Interim Financial Report as at 31 December 2013. The transaction will result in the carrying value of this business being recovered through sale. The impact of this sale on the Group's results and net assets is not material.

2014 Outlook

Mr Pretty said: "We note the Reserve Bank's observations that overall, growth of the economy is expected to continue at a below-trend pace over the next year, picking up thereafter. Hills' objective is to outperform the market and our competitors and we are well positioned to meet that objective. We enter the second half of FY14 having built strong momentum over the previous six months to achieve our earnings targets".

"Subject to completion of the Steel disposals at the end of February 2014, Hills expects FY14 Underlying NPAT attributable to owners to be in the range of $26M-$28M". Mr Pretty said.

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[i] Underlying NPAT attributable to owners for the half year ended 31 December 2013 of $16.2M is a non-IFRS measure calculated as: NPAT attributable to owners of $14.1M adjusted for business combination acquisition transaction costs of $2.1M after tax as disclosed in note 9(c) of the Interim Financial Report.

Underlying NPAT attributable to owners 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 CGU impairment, restructuring and closure costs and other associated impairments offset by profit on sale of businesses (totalling a net cost of $81.8M after tax) as disclosed in note 9(c) of the Interim Financial Report.

The non-IFRS measures used by the Company are relevant because they are consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. The non-IFRS measures have not been subject to audit or review.

[ii] Underlying continuing EBIT is a non-IFRS measure adjusting EBIT for the effect of business sold or closed during the current or prior periods which could not be accounted for as Discontinued Operations under IFRS as a result of these businesses not being separate operating segments or not being major separate lines of business. This non-IFRS measure enhances the comparability of continuing operations between periods and is used internally by management to assess the operating performance of the business in light of its change program. The non-IFRS measures have not been subject to audit or review.

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[iii] AASB 5 Non-current Assets Held for Sale and Discontinued Operations requires that a non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered through sale rather than continuing use. In addition, AASB 5 requires that these assets are measured at the lower of their carrying value and fair value less costs to sell.