

nib holdings limited
ABN 51 125 633 856

Half-year report for the period ended 31 December 2014

This report should be read in conjunction with the annual financial report for the year ended 30 June 2014.

CONTENTS

Results for announcement to the market	2
Appendix 4D compliance matrix	3
Interim Report of nib holdings limited	4

Appendix 4D

For the half year ended 31 December 2014

nib holdings limited

Results for announcement to the market

	6 months to 31 Dec 14 \$'000	6 months to 31 Dec 13 \$'000	Movement up / (down) \$'000	Movement %
Revenue from ordinary activities	825,794	754,831	70,963	9%
Profit from ordinary activities after tax attributable to members	41,362	39,671	1,691	4%
Net profit attributable to members	41,362	39,671	1,691	4%

	6 months to 31 Dec 14 Amount per security (cps)	Franking amount per security	6 months to 31 Dec 13 Amount per security (cps)	Franking amount per security
Interim Dividend				
Ordinary Dividend	5.50	100%	5.25	100%
Special Dividend	0.00	100%	0.00	100%
Total Interim Dividend	5.50	100%	5.25	100%
Record date for determining entitlements to the dividend	6 March 2015			
Date the interim dividend is payable	2 April 2015			

Brief explanation of figures reported above:

Net profit after tax attributable to owners of nib holdings limited for the half year to 31 December 2014 calculated on a statutory basis equated to a profit of \$41.362 million.

For further information refer to the Directors' Report in the attached Interim Report of nib holdings limited for the period ended 31 December 2014.

Appendix 4D

For the half year ended 31 December 2014

nib holdings limited

Appendix 4D disclosure requirements	nib group Appendix 4D	Note Number
1. Details of the reporting period and the previous corresponding period	All financial data headings	
<p>2. Key information in relation to the following: This information must be identified as "Results for announcement to the market".</p> <p>2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.</p> <p>2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.</p> <p>2.3 The amount and percentage change up or down from the previous corresponding period of profit (loss) attributable to members.</p> <p>2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.</p> <p>2.5 The record date for determining entitlements to the dividends (if any).</p> <p>2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.</p>	"Results for announcement to the market" page 1 Appendix 4D	
3. Net tangible assets per security with the comparative figure for the previous corresponding period.	Net tangible asset backing per ordinary security (cents per share) is 54.20 (57.75 as at 31 Dec 2013)	
<p>4. Details of entities over which control has been gained or lost during the period, including the following:</p> <p>4.1 Name of entity.</p> <p>4.2 The date of the gain or loss of control.</p> <p>4.3 Where material to the understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding reporting period.</p>	<p>4.1 Digital Health Ventures Pty Limited</p> <p>4.2 Control gained 8 August 2014</p> <p>4.3 n/a</p>	Note 14
5. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which the dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	<p>Interim Report 31 December 2014:</p> <ul style="list-style-type: none"> • Notes to the financial statement - Dividends 	Note 12
6. Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for the participation in any dividend or distribution reinvestment plan.	No dividend reinvestment plan. Not applicable	
7. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to the understanding of the report – aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for the previous corresponding reporting period.	Not applicable	
8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable	

Appendix 4D

For the half year ended 31 December 2014
nib holdings limited

9. For all entities, if the accounts contain an independent audit report or review that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.	Not applicable	
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M McPherson
Company Secretary
nib holdings limited

Date 20 February 2015



nib holdings limited

**Interim Report
31 December 2014**

ABN 51 125 633 856

CONTENTS	Page
Directors' Report	1
Auditor's Independence Declaration	5
Financial Report	
Consolidated Income Statement	7
Consolidated Statement of Comprehensive Income	8
Consolidated Balance Sheet	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
Notes to the Consolidated Financial Statements	12
Directors' Declaration	37
Independent Auditor's Report to the Members	38

Directors' Report

For the half year ended 31 December 2014

nib holdings limited

The Directors of nib holdings limited (Company) present their report on the consolidated entity (hereafter as the Group) consisting of nib holdings limited and the entities it controlled at the end of or during the half year ended 31 December 2014.

Directors

The following persons were Directors of nib holdings limited during the whole of the half year and up to the date of this report:

Steve Crane
Mark Fitzgibbon
Lee Ausburn
Harold Bentley
Annette Carruthers
Philip Gardner
Christine McLoughlin

Principal Activities

The principal continuing activities of the Group consisted of operating as a private health insurer covering Australian residents, New Zealand residents and international visitors and students. Our vision is to be a leading financier and facilitator of healthcare spending with a reputation for innovative products, value for money, outstanding customer service, being a good corporate citizen and strong shareholder returns.

Review of operations

(\$m)	Half year		Change	
	31 Dec 14	31 Dec 13	\$m	%
Net premium revenue	802.3	735.4	66.9	9.1
Net claims incurred (excluding claims handling expenses)	(670.1)	(613.3)	(56.8)	9.3
Gross margin	132.2	122.1	10.1	8.3
Gross margin (%)	16.5%	16.6%		
Management expense	(86.5)	(79.4)	(7.1)	9.0
Management expense ratio (%)	10.8%	10.8%		
Underwriting result	45.7	42.7	3.0	7.1
Other income	2.7	2.1	0.6	26.5
Other expenses	(6.4)	(3.5)	(2.9)	83.4
Operating profit	42.1	41.4	0.7	1.7
Net investment income	20.0	16.5	3.5	21.0
Net investment return (%)	3.7%	3.2%		
Finance costs	(1.7)	(1.3)	(0.4)	27.7
Profit before tax	60.4	56.6	3.8	6.7
Income tax	(19.3)	(17.0)	(2.3)	13.5
Net profit after tax (NPAT)	41.1	39.6	1.5	3.8
Earnings per share (cps)	9.4	9.0	0.4	4.4
Return on equity (%) ¹	21.4%	21.9%		
Operating cash flow	16.6	26.3	(9.7)	(36.9)

¹: Using average shareholders' equity and NPAT for the previous 12 months over a 12 month rolling period.

For the six months ended 31 December 2014, Group premium revenue grew 9.1% to \$802.3 million compared to the same period last fiscal year (1H14). Overall for the period, our Group operating profit was \$42.1 million up 1.7% on 1H14 and benefited from a stable gross margin and continued focus upon operating efficiencies. The growth in other expenses of \$6.4 million included a write-off of goodwill purchased as well as our front end investment in nib Options, our medical travel business.

Investments for the period outperformed our internal benchmarks with a return of 7.6% (annualised), with NPAT up 3.8% on 1H14 to \$41.1 million. nib has declared an interim dividend of 5.5 cps (fully franked), which equates to \$24.1 million. The record and payment date for the interim dividend are 6 March and 2 April 2015 respectively.

Directors' Report

For the half year ended 31 December 2014

nib holdings limited

Review of operations continued

Australian Residents Health Insurance

(\$m)	Half year		Change	
	31 Dec 14	31 Dec 13	\$m	%
Policyholder growth	0.9%	2.6%		
Net premium revenue	706.9	649.7	57.2	8.8
Net claims incurred (excluding claims handling expenses)	(612.5)	(563.0)	(49.5)	8.8
Gross margin	94.4	86.7	7.7	8.9
Gross margin (%)	13.4%	13.3%		
Management expenses	(57.0)	(52.7)	(4.3)	8.2
Management expense ratio (%)	8.1%	8.1%		
Underwriting result	37.4	34.0	3.3	10.0
Net margin (%)	5.3%	5.2%		
Other income	0.1	0.0	0.1	-
Operating profit	37.5	34.0	3.4	10.3

Our Australian Residents Health Insurance (arhi) business continued to deliver strong top line growth with premium revenue up by \$57.2million (8.8%) compared to 1H14. arhi's operating profit also improved on the previous first half up 10.3% to \$37.5 million. arhi remains the main engine of Group earnings.

Net policyholder growth for the six months of 0.9% was soft due to increased competition for sales, the impact of regulatory changes and lower sales via retail brokers. Pleasingly, the investment in targeting customers aged over 55 years performed well with sales to this segment up by more than 27% on 1H14. Although nib is primarily a youth oriented brand it is through distribution partners that we are quickly building a larger market presence in this older demographic segment with positive results for premium income and risk equalisation exposure.

nib and other health insurers continue to experience high claims inflation and with it, some margin pressure. Total claims for arhi of \$612.5 million were up 8.8% on 1H14 (which included \$94.7 million in risk equalisation transfers). As in FY14, our first half result was especially impacted by profitability issues on some products. We have moved quickly to redress this by a combination of pricing and product modification. In relation to the former, nib will be increasing premiums from 1 April 2015. This is designed to account for rising claims experience and return us to within our target net margin range of 5.0% to 5.5% in FY16.

While our arhi business is not without its challenges, we remain optimistic about its prospects for further growth given the dynamics of the Australian healthcare sector and with that, ongoing profitability.

International Students Health Insurance

(\$m)	Half year		Change	
	31 Dec 14	31 Dec 13	\$m	%
Policyholder growth	36.2%	69.0%		
Net premium revenue	7.3	3.9	3.4	86.9
Net claims incurred (excluding claims handling expenses)	(4.4)	(1.9)	(2.5)	128.2
Gross margin	2.9	2.0	0.9	47.1
Gross margin (%)	40.1%	51.0%		
Management expenses	(2.6)	(1.2)	(1.4)	106.2
Management expense ratio (%)	35.0%	31.7%		
Underwriting result	0.4	0.8	(0.4)	(50.3)
Net margin (%)	5.1%	19.2%		
Other income	0.1	0.0	0.1	-
Operating profit	0.5	0.8	(0.3)	(36.4)

nib's international students health insurance (ishi) business continued to achieve very strong results. Net policyholder growth for the period was up more than 130% on 1H14 and premium revenue grew more than 85% to \$7.3 million. nib now insures more than 35,000 overseas students studying in Australia, compared to less than 4,000 two years ago. And soon to be added are almost 13,000 Saudi Arabian students, diplomats and their dependents. Due to enrolment timing and expected seasonal claims experience, the new Saudi business is not expected to materially impact FY15 earnings.

Directors' Report

For the half year ended 31 December 2014

nib holdings limited

Review of operations continued

ishi, which became profitable for the first time in FY14, had an operating profit of \$0.5 million in 1H15 (1H14: \$0.8 million). The result was down on the same period last year due to product mix and the claims behaviour of a more mature policyholder portfolio. But we see the business improving profitability over the course of the full fiscal year. The net margin for our international students business in FY15 is expected to be in the range of 5% to 10%.

International Workers Health Insurance

(\$m)	Half year		Change	
	31 Dec 14	31 Dec 13	\$m	%
Policyholder growth	3.2%	6.3%		
Net premium revenue	15.1	14.3	0.8	5.4
Net claims incurred (excluding claims handling expenses)	(4.4)	(6.0)	1.6	(26.2)
Gross margin	10.8	8.4	2.4	28.9
Gross margin (%)	71.2%	58.3%		
Management expenses	(3.6)	(3.6)	0.0	(0.8)
Management expense ratio (%)	23.9%	25.4%		
Underwriting result	7.2	4.7	2.5	51.7
Net margin (%)	47.3%	32.9%		
Other income	0.0	0.0	0.0	-
Operating profit	7.2	4.7	2.5	51.7

Our International Workers Health Insurance (iwhi) has been a meaningful earnings contributor for several years since we purchased the IMAN business in 2010. During this period iwhi's premium revenue rose 5.4% to \$15.1 million with net operating profit up more than 50% to \$7.2 million.

Despite a softening domestic market for skilled migrant workers, revenue and earnings growth are expected to continue for the full year as we look to grow our market share of the overall migrant visa market. Full year margins are expected to be in line with previous years (net margin: 30% to 35%) and are viewed as sustainable.

nib New Zealand

(\$m)	Half year		Change	
	31 Dec 14	31 Dec 13	\$m	%
Policyholder growth	3.3%	(0.3%)		
Net premium revenue	72.9	67.5	5.5	8.1
Net claims incurred (excluding PPB and claims handling expenses)	(48.3)	(45.2)	(3.1)	6.9
(Increase)/decrease in premium payback liability	(0.6)	2.7	(3.3)	(120.8)
Gross margin	24.1	25.0	(0.9)	(3.6)
Gross margin (%)	33.0%	37.1%		
Management expenses	(23.3)	(21.8)	(1.5)	6.9
Management expense ratio (%)	32.0%	32.3%		
Underwriting result	0.8	3.2	(2.4)	(76.2)
Net margin (%)	1.0%	4.8%		
Other income	0.0	0.0	0.0	-
Operating profit	0.8	3.2	(2.4)	(76.2)

nib's New Zealand business reached a significant milestone during the period, achieving net policyholder growth of 3.3% after a decade of decline. At a top line level, nib New Zealand premium revenue increased 8.1% to \$72.9 million.

nib New Zealand's 1H15 operating profit was \$0.8 million, down \$2.4 million or 76.2%. This result includes an unfavourable variance of \$3.3 million in respect of the movement in the Premium Payback liability which is a calculated liability based upon at some future time reimbursing policyholders the difference between premiums received and claims paid. The products this liability relates to are closed and the liability is matched by a specific investment portfolio which results in the majority of the movement in the liability being offset by investment income. The operating profit excluding this liability movement is \$1.3 million in 1H15 compared to \$0.5 million in 1H14.

nib acquired its New Zealand business in November 2012 and has since focused upon building the business fundamentals such as brand and the direct-to-consumer channel as well as improving performance in the existing group employee and wealth advisor channels. It's still very early days for our New Zealand business and it's going to take a little time to build it to the level we aspire. But we remain very confident about the potential and about eventually meeting our investment goals.

Directors' Report

For the half year ended 31 December 2014

nib holdings limited

Review of operations continued

nib Options

(\$m)	Half year		Change	
	31 Dec 14	31 Dec 13	\$m	%
Other income	0.6	0.2	0.4	151.7
Other expenses	(3.1)	(1.2)	(2.0)	162.9
Operating profit	(2.6)	(1.0)	(1.6)	165.7

In March 2014 we launched our Australian and international medical travel business "nib Options".

The business was developed in response to the growing demand for safe, reliable and affordable overseas medical and dental treatment. While marketing and consequential customer enquiries have been strong, sales have been much slower than expected. nib Options made an loss of \$2.6 million for 1H15 reflecting this. A series of actions based upon our experience so far are being taken to improve sales and operational performance.

Capital management

At 31 December 2014 the Group had net assets of \$332.3 million (June 2014: \$356.4 million) and a return on equity of 21.4%, using average shareholders' equity and NPAT for the previous 12 months over a rolling 12-month period (December 2013: 21.9%). Further, at 31 December 2014 the Group had available capital of \$47.5 million above our internal benchmark (after allowing for the payment of an interim dividend of 5.5 cents per share, totalling \$24.1 million, in April 2015).

Dividends

Dividends paid to shareholders during the half year were as follows:

	Half year	
	31 Dec 14 \$000	31 Dec 13 \$000
Final dividend for the year ended 30 June 2014 of 14.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend and 9.0 cps special dividend (2013: 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend) paid on 3 October 2014	64,748	21,948

In addition to these dividends, since the end of the half year the Directors have recommended the payment of a fully franked interim dividend of \$24.1 million (5.5 cents per fully paid share, made up of 5.5 cps ordinary dividend) to be paid on 2 April 2015 out of retained profits at 31 December 2014.

Subject to franking credit availability, the Board's position is that future ordinary dividends will reflect a dividend payout ratio of 60% to 70% of earnings with additional capacity to pay special dividends as part of future capital management.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

Rounding of amounts

The company is of a kind referred to in ASIC Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

On behalf of the Board



Steve Crane
Director
Newcastle, NSW
20 February 2015



Harold Bentley
Director



Auditor's Independence Declaration

As lead auditor for the review of nib holdings limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of nib holdings limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'C. Mara' with a stylized flourish at the end.

Caroline Mara
Partner
PricewaterhouseCoopers

Newcastle
20 February 2015

Financial Report

For the half year ended 31 December 2014

nib holdings limited

CONTENTS

	Page
Consolidated Income Statement	7
Consolidated Statement of Comprehensive Income	8
Consolidated Balance Sheet	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
Notes to the Consolidated Financial Statements:	
1. Summary of Significant Accounting Policies	12
2. Fair Value Measurement	13
3. Segment Reporting	16
4. Revenue and Other Income	20
5. Expenses	21
6. Income Tax	22
7. Financial Assets at Fair Value through Profit or Loss	23
8. Intangible Assets	24
9. Borrowings	25
10. Outstanding Claims Liability	26
11. Premium Payback Liability	28
12. Dividends	30
13. Capital Management	31
14. Controlled Entities	33
15. Events Occurring After Balance Sheet Date	34
16. Parent Entity Financial Information	35
17. Company Details	36

Consolidated Income Statement

For the half year ended 31 December 2014

nib holdings limited

	Notes	Half year	
		31 Dec 14	31 Dec 13
		\$000	\$000
Premium revenue	4	803,017	736,033
Outwards reinsurance premium expense	4	(711)	(621)
Net premium revenue		802,306	735,412
Claims expense		(560,975)	(501,354)
Reinsurance and other recoveries revenue		334	302
RETF levy		(94,717)	(100,886)
State levies		(14,158)	(14,122)
(Increase) / Decrease in premium payback liability		(573)	2,727
Claims handling expenses	5	(8,064)	(9,187)
Net claims incurred		(678,153)	(622,520)
Acquisition costs	5	(38,006)	(33,403)
Other underwriting expenses	5	(40,427)	(36,781)
Underwriting expenses		(78,433)	(70,184)
Underwriting result		45,720	42,708
Other income	4	2,701	2,136
Other expenses	5	(6,350)	(3,462)
Operating profit		42,071	41,382
Finance costs	5	(1,671)	(1,309)
Investment income	4	20,787	17,283
Investment expenses	5	(788)	(749)
Profit before income tax		60,399	56,607
Income tax expense	6	(19,272)	(16,987)
Profit for the half year		41,127	39,620
Profit for the half year is attributable to:			
Owners of nib holdings limited		41,362	39,671
Non-controlling interests		(235)	(51)
		41,127	39,620
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share		9.4	9.0
Diluted earnings per share		9.4	9.0
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share		9.4	9.0
Diluted earnings per share		9.4	9.0

The above Consolidated Income Statement should be read in conjunction with the accompanying notes

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2014

nib holdings limited

	Notes	Half year	
		31 Dec 14	31 Dec 13
		\$000	\$000
Profit for the half year		41,127	39,620
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		891	2,306
Change in fair value of available for sale financial assets		(2,012)	653
Income tax related to these items	6	520	(742)
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of land and buildings		-	4,518
Income tax related to these items		-	(1,355)
Other comprehensive income for the half year, net of tax		(601)	5,380
Total comprehensive income for the half year		40,526	45,000
Total comprehensive income for the half year is attributable to:			
Owners of nib holdings limited		40,761	45,051
Non-controlling interests		(235)	(51)
		40,526	45,000

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes

Consolidated Balance Sheet
For the half year ended 31 December 2014
nib holdings limited

	Notes	Half year	
		31 Dec 14	30 Jun 14
		\$000	\$000
ASSETS			
Current assets			
Cash and cash equivalents		83,254	148,722
Receivables		44,512	44,903
Financial assets at fair value through profit or loss	7	438,610	410,779
Reinsurance and other recoveries receivable		84	108
Deferred acquisition costs		18,796	15,778
Current tax assets		2,834	2,876
Total current assets		588,090	623,166
Non-current assets			
Deferred acquisition costs		27,265	24,250
Available-for-sale financial assets		-	3,512
Deferred tax assets		3,166	4,031
Property, plant and equipment		49,168	47,967
Intangible assets	8	94,420	95,178
Total non-current assets		174,019	174,938
Total assets		762,109	798,104
LIABILITIES			
Current liabilities			
Payables		101,811	110,720
Borrowings	9	1,412	1,768
Derivative financial instruments		36	-
Outstanding claims liability	10	87,064	93,652
Unearned premium liability		101,275	104,278
Premium payback liability	11	7,597	7,496
Provision for employee entitlements		2,522	2,370
Current tax liabilities		-	1,264
Total current liabilities		301,717	321,548
Non-current liabilities			
Payables		-	672
Borrowings	9	66,964	65,081
Unearned premium liability		12,088	9,924
Premium payback liability	11	34,901	33,254
Provision for employee entitlements		1,430	1,268
Deferred tax liabilities		12,663	9,989
Total non-current liabilities		128,046	120,188
Total liabilities		429,763	441,736
Net assets		332,346	356,368
EQUITY			
Contributed equity		28,001	27,189
Retained profits		296,746	320,132
Reserves		7,888	9,101
Capital and reserves attributable to owners of nib holdings limited		332,635	356,422
Non-controlling interests	14(b)	(289)	(54)
Total equity		332,346	356,368

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2014

nib holdings limited

	Attributable to owners of nib holdings limited				Non-controlling interests	Total Equity
	Contributed Equity	Retained Profits	Reserves	Total		
	\$000	\$000	\$000	\$000		
Balance at 1 July 2013	27,906	295,212	3,035	326,153	-	326,153
Profit for the half year	-	39,671	-	39,671	(51)	39,620
Gain on revaluation of land and buildings	-	-	3,163	3,163	-	3,163
Revaluation of available for sale financial assets, net of tax	-	-	457	457	-	457
Movement in foreign currency translation, net of tax	-	-	1,760	1,760	-	1,760
Total comprehensive income for the year	-	39,671	5,380	45,051	(51)	45,000
Transactions with owners in their capacity as owners:						
Transactions with non-controlling interests	-	-	-	-	81	81
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	(35)	-	-	(35)	-	(35)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	120	-	-	120	-	120
Employee performance rights - value of employee services	-	-	142	142	-	142
Dividends paid	12	(21,948)	-	(21,948)	-	(21,948)
	85	(21,948)	142	(21,721)	81	(21,640)
Balance at 31 December 2013	27,991	312,935	8,557	349,483	30	349,513
Balance at 1 July 2014	27,189	320,132	9,101	356,422	(54)	356,368
Profit for the half year	-	41,362	-	41,362	(235)	41,127
Gain on revaluation of land and buildings, net of tax	-	-	-	-	-	-
Revaluation of available for sale financial assets, net of tax	-	-	(1,408)	(1,408)	-	(1,408)
Movement in foreign currency translation, net of tax	-	-	807	807	-	807
Total comprehensive income for the year	-	41,362	(601)	40,761	(235)	40,526
Transactions with owners in their capacity as owners:						
Transactions with non-controlling interests	-	-	-	-	-	-
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	(137)	-	-	(137)	-	(137)
Issue of shares held by nib Holdings Ltd Share Ownership Plan Trust to employees	949	-	(745)	204	-	204
Employee performance rights - value of employee services	-	-	133	133	-	133
Dividends paid	12	(64,748)	-	(64,748)	-	(64,748)
	812	(64,748)	(612)	(64,548)	-	(64,548)
Balance at 31 December 2014	28,001	296,746	7,888	332,635	(289)	332,346

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows

For the half year ended 31 December 2014

nib holdings limited

	Half year	
	31 Dec 14	31 Dec 13
Notes	\$000	\$000
Cash flows from operating activities		
Receipts from policyholders and customers (inclusive of goods and services tax)	818,916	749,354
Payments to policyholders and customers	(679,012)	(613,598)
Payments to suppliers and employees (inclusive of goods and services tax)	(111,995)	(99,904)
	27,909	35,852
Dividends received	217	88
Interest received	4,830	5,378
Distributions received	1,643	1,087
Transaction costs relating to acquisition of subsidiary	-	(104)
Interest paid	(1,643)	(1,282)
Income taxes paid	(16,334)	(14,695)
Net cash inflow from operating activities	16,622	26,324
Cash flows from investing activities		
Proceeds from disposal of other financial assets at fair value through profit and loss	98,664	87,837
Payments for other financial assets at fair value through profit and loss	(116,064)	(123,800)
Proceeds from sale of investment properties	-	10,000
Proceeds from sale of available-for-sale financial assets	6,882	-
Proceeds from sale of property, plant and equipment and intangibles	17	-
Payments for property, plant and equipment and intangibles	(6,664)	(5,443)
Payment for acquisition of subsidiary, net of cash acquired	-	(84)
Net cash inflow (outflow) from investing activities	(17,165)	(31,490)
Cash flows from financing activities		
Repayment of borrowings	-	(550)
Shares acquired by the nib Holdings Ltd Share Ownership Plan Trust	(137)	(35)
Transactions with non-controlling interests	-	81
Dividends paid to the company's shareholders	(64,748)	(21,948)
Net cash inflow (outflow) from financing activities	(64,885)	(22,452)
Net increase (decrease) in cash and cash equivalents	(65,428)	(27,618)
Cash and cash equivalents at beginning of the year	146,954	139,756
Effects of exchange rate changes on cash and cash equivalents	316	1,987
Cash and cash equivalents at the end of the half year	81,842	114,125
Reconciliation to Consolidated Balance Sheet		
Cash and cash equivalents	83,254	115,950
Borrowings - overdraft	(1,412)	(1,825)
	81,842	114,125

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Consolidated Financial Statements

For the half year ended 31 December 2014

nib holdings limited

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of nib holdings limited and its subsidiaries.

a) Basis of preparation of half year report

This consolidated interim financial report for the half year reporting period ended 31 December 2014 has been prepared in accordance with *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*. nib holdings limited is a for-profit entity for the purpose of preparing the financial statements.

This consolidated interim financial report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 30 June 2014 and any public announcements made by nib holdings limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year. Additional accounting policies are shown for new transactions that have occurred since the previous financial year.

When the presentation or classification of items in the financial report is amended, comparative amounts have been reclassified.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

2. FAIR VALUE MEASUREMENT

a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2014 and 30 June 2014.

	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
Group at 31 December 2014				
Assets				
Cash and cash equivalents and deposits at call	83,254	-	-	83,254
Financial assets at fair value through profit or loss				
Equity securities	52,868	727	-	53,595
Interest-bearing securities	289,555	42,958	-	332,513
Short term deposits	50,144	-	-	50,144
Derivative financial instruments	-	2,358	-	2,358
Available-for-sale financial assets				
Unlisted equity securities	-	-	-	-
Property, plant & equipment				
Land & buildings	-	-	39,995	39,995
Total assets	475,821	46,043	39,995	561,859
Liabilities				
Contingent consideration payable	-	-	-	-
Derivative financial instruments	-	36	-	36
Total liabilities	-	36	-	36

	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
Group at 30 June 2014				
Assets				
Cash and cash equivalents and deposits at call	148,722	-	-	148,722
Financial assets at fair value through profit or loss				
Equity securities	52,921	710	-	53,631
Interest-bearing securities	266,594	38,341	-	304,935
Short term deposits	50,138	-	-	50,138
Derivative financial instruments	-	2,075	-	2,075
Available-for-sale financial assets				
Unlisted equity securities	-	3,512	-	3,512
Property, plant & equipment				
Land & buildings	-	-	40,587	40,587
Total assets	518,375	44,638	40,587	603,600
Liabilities				
Contingent consideration payable	-	-	672	672
Total liabilities	-	-	672	672

There were no transfers between level 1 and level 2 during the half year ended 31 December 2014.

The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

2. FAIR VALUE MEASUREMENT continued

a) Fair value hierarchy continued

Level 1: The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit and loss) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in active markets (for example available-for-sale financial assets) is determined using valuation techniques. The Group use a variety of methods and makes assumptions that are based on market conditions existing at each balance date. These instruments are included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates for financial instruments are included in level 2 except for contingent consideration payable explained in c) below.

The Group obtains independent valuations for its freehold land and buildings at least every three years.

At the end of each reporting period, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. Freehold land and buildings at 22 Honeysuckle Drive was valued externally by a member of the Australian Property Institute as at 31 December 2013. Other freehold land and buildings were independently valued by a member of the Australian Property Institute as at 30 June 2013. As at 31 December 2014 a Directors' valuation has been performed for all properties.

All resulting fair value estimates for properties are included at level 3.

c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the half year ended 31 December 2014:

	Land & Buildings	Contingent consideration payable ¹	Total
	\$000	\$000	\$000
Opening balance 1 July 2014	40,587	(672)	39,915
Gains / (losses) recognised in other income	-	672	672
Depreciation	(592)	-	(592)
Closing balance 31 December 2014	39,995	-	39,995

¹: As at 31 December 2014, the contingent consideration in relation to the acquisition of RealSelf Pty Ltd has been derecognised, as the required level of subscription income is forecast not to be achieved. A gain of \$672,025 was included in other income.

i) Transfers between levels 2 and 3

There were no transfers between the levels of the fair value hierarchy during the year. There were also no changes during the half year to any of the valuation techniques applied as of 30 June 2014.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

2. FAIR VALUE MEASUREMENT continued

c) Fair value measurements using significant observable inputs (level 3) continued

ii) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 31 December 2014 \$000	Unobservable inputs *	Range of inputs (probability - weighted average)	Relationship of unobservable inputs to fair value
Land & buildings	39,995	Capitalisation rate	7.5% - 9.5% (8.5%)	The higher the capitalisation rate, the lower the fair value.

iii) Valuation process

The Group engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings at least every three years. As at 31 December 2014, a Directors' valuation has been performed for the land and buildings.

The finance department of the Group includes a team that performs the valuations of non-property assets required for financial reporting purposes, including level 3 fair values. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's half-yearly reporting dates.

The main level 3 inputs used by the Group in measuring the fair value of the contingent consideration payable are based on the terms of the share sale agreement, being an estimate of the timing of achieving a predetermined level of subscription income and a discount rate that is applicable to the anticipated payment date.

Changes in level 2 and 3 fair values are analysed at each reporting date during the half-yearly valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

d) Fair values of other financial instruments

The Group also had another financial instrument which was not measured at fair value in the balance sheet. This had the following fair value as at 31 December 2014:

	31 Dec 14		30 Jun 14	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current borrowings	\$000	\$000	\$000	\$000
Bank loans	66,964	67,018	65,081	65,163

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short-term nature.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

3. SEGMENT REPORTING

a) Description of segments

Management has determined the operating segments based on the reports reviewed by the MD/CEO that are used to make strategic decisions.

The MD/CEO considers the business from both a geographic and product perspective and has identified five reportable segments:

- Australian Residents Health Insurance (arhi) – nib's core product offering within the Australian private health insurance industry
- New Zealand Private Health Insurance (nib nz) – nib's core product offering within the New Zealand private health insurance industry
- International Students Health Insurance (ishi) – nib's offering of health insurance products for international students
- International Workers Health Insurance (iwih) - nib's offering of health insurance products for international workers
- nib Options – this part of the business facilitates access to cosmetic and dental treatment both overseas and here in Australia

Although the ishi and the nib Options segments do not meet the quantitative thresholds required by AASB 8, management has concluded that the segments should be reported, as they are closely monitored by the MD/CEO as potential growth segments and are expected to contribute to Group revenue in the future.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

3. SEGMENT REPORTING continued

b) Segment information provided to Executive management

The segment information provided to the MD/CEO for the reportable segments is as follows:

For the half year ending 31 December 2014

	arhi Australia \$000	ishi Australia \$000	iwhi Australia \$000	nib nz New Zealand \$000	nib Options Australia \$000	Unallocated to segments \$000	Total \$000
Premium revenue	706,923	7,335	15,838	72,921	-	-	803,017
Outwards reinsurance premium expense	-	-	(711)	-	-	-	(711)
Net premium revenue	706,923	7,335	15,127	72,921	-	-	802,306
Claims expense	(503,633)	(4,393)	(4,692)	(48,257)	-	-	(560,975)
Reinsurance and other recoveries revenue	-	-	334	-	-	-	334
RETF levy	(94,717)	-	-	-	-	-	(94,717)
State levies	(14,158)	-	-	-	-	-	(14,158)
(Increase) / Decrease in premium payback liability	-	-	-	(573)	-	-	(573)
Claims handling expenses	(7,197)	(126)	(129)	(612)	-	-	(8,064)
Net claims incurred	(619,705)	(4,519)	(4,487)	(49,442)	-	-	(678,153)
Acquisition costs	(22,774)	(1,062)	(1,304)	(12,866)	-	-	(38,006)
Other underwriting expenses	(27,023)	(1,379)	(2,175)	(9,850)	-	-	(40,427)
Underwriting expenses	(49,797)	(2,441)	(3,479)	(22,716)	-	-	(78,433)
Underwriting result	37,421	375	7,161	763	-	-	45,720
Other income	121	105	-	-	594	1,881	2,701
Other expenses	-	-	-	-	(3,147)	(3,203)	(6,350)
Operating profit / (loss)	37,542	480	7,161	763	(2,553)	(1,322)	42,071
Inter-segment other income ¹	1,317	-	-	32	-	-	1,349
Total segment assets	531,379			170,780	539		702,698
Total segment liabilities	275,904			73,345	574		349,823
Insurance liabilities							
Outstanding claims liability		77,183		9,881	-		87,064
Unearned premium liability		98,056		15,307	-		113,363
Premium payback liability		-		42,498	-		42,498
Total		175,239		67,686	-		242,925

1. Inter-segment other income is eliminated on consolidation and not included in operating profit for arhi and nib nz.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

3. SEGMENT REPORTING continued

b) Segment information provided to Executive management continued

For the half year ending 31 December 2013

	arhi Australia \$000	ishi Australia \$000	iwhi Australia \$000	nib nz New Zealand \$000	nib Options Australia \$000	Unallocated to segments \$000	Total \$000
Premium revenue	649,685	3,925	14,967	67,456	-	-	736,033
Outwards reinsurance premium expense	-	-	(621)	-	-	-	(621)
Net premium revenue	649,685	3,925	14,346	67,456	-	-	735,412
Claims expense	(447,981)	(1,925)	(6,290)	(45,158)	-	-	(501,354)
Reinsurance and other recoveries revenue	-	-	302	-	-	-	302
RETF levy	(100,886)	-	-	-	-	-	(100,886)
State levies	(14,122)	-	-	-	-	-	(14,122)
(Increase) / Decrease in premium payback liability	-	-	-	2,727	-	-	2,727
Claims handling expenses	(8,017)	(79)	(555)	(536)	-	-	(9,187)
Net claims incurred	(571,006)	(2,004)	(6,543)	(42,967)	-	-	(622,520)
Acquisition costs	(18,695)	(601)	(1,315)	(12,792)	-	-	(33,403)
Other underwriting expenses	(25,959)	(565)	(1,768)	(8,489)	-	-	(36,781)
Underwriting expenses	(44,654)	(1,166)	(3,083)	(21,281)	-	-	(70,184)
Underwriting result	34,025	755	4,720	3,208	-	-	42,708
Other income	-	-	-	-	236	1,900	2,136
Other expenses	-	-	-	-	(1,197)	(2,265)	(3,462)
Operating profit / (loss)	34,025	755	4,720	3,208	(961)	(365)	41,382
Inter-segment other income ¹	474	-	-	-	-	-	474
Total segment assets	560,632			156,427	1,911		718,970
Total segment liabilities	253,311			69,684	928		323,923
Insurance liabilities							
Outstanding claims liability		73,207		9,836	-		83,043
Unearned premium liability		77,467		14,455	-		91,922
Premium payback liability		-		40,841	-		40,841
Total		150,674		65,132	-		215,806

1. Inter-segment other income is eliminated on consolidation and not included in operating profit for arhi.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

3. SEGMENT REPORTING continued

c) Other segment information

The MD/CEO assesses the performance of the operating segments based on operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as integration costs.

No information regarding assets, liabilities and income tax is provided for individual Australian Health Insurance and Health Related segments to the MD/CEO. Furthermore, investment income and expenditure for Australia is not allocated to individual Australian segments as this type of activity is driven by the central treasury function, which manages the cash position of the Australian companies.

i) Segment operating profit

A reconciliation of segment operating profit to profit before income tax is provided as follows:

	31 Dec 14	31 Dec 13
	\$000	\$000
Segment operating profit	43,393	41,747
Other income - unallocated to segments	1,881	1,900
Other expenses - unallocated to segments	(3,203)	(2,265)
Finance costs	(1,671)	(1,309)
Investment income	20,787	17,283
Investment expenses	(788)	(749)
Profit before income tax from continuing operations	60,399	56,607

ii) Segment assets

Assets backing insurance liabilities have been included in segment assets reported. Assets held in nib holdings limited and nib nz holdings limited are not allocated to segments. Reportable segments' assets are reconciled to total assets as follows:

	31 Dec 14	30 Jun 14
	\$000	\$000
Segment assets	702,698	690,036
Unallocated assets:		
Cash and cash equivalents	52,538	97,465
Receivables	451	128
Available for sale financial assets	-	3,512
Deferred tax assets	3,166	4,031
Current tax assets	2,834	2,876
Plant, property and equipment	422	56
Total assets as per the balance sheet	762,109	798,104

iii) Segment liabilities

The Group's borrowings are not considered to be segment liabilities but rather managed by the treasury function. Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 Dec 14	30 Jun 14
	\$000	\$000
Segment liabilities	349,823	364,326
Unallocated liabilities:		
Payables	313	1,076
Bank loans	66,964	65,081
Current tax liabilities	-	1,264
Deferred tax liabilities	12,663	9,989
Total liabilities as per the balance sheet	429,763	441,736

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

4. REVENUE AND OTHER INCOME

	Half year	
	31 Dec 14	31 Dec 13
	\$000	\$000
Premium revenue	803,017	736,033
Outwards reinsurance premiums	(711)	(621)
Net premium revenue	802,306	735,412
Other Income		
Agency fee	156	102
Life and funeral insurance commission	990	859
Travel insurance and other commission	189	195
Rental income	475	400
Subscription income	(105)	236
Fair value adjustment to contingent consideration	672	-
Sundry income	324	344
	2,701	2,136
Investment income		
Interest	4,933	4,678
Net gain on sale of available for sale financial assets ¹	5,382	-
Net realised gain on financial assets at fair value through profit or loss	5,297	3,649
Net unrealised gain on financial assets at fair value through profit or loss	4,958	8,868
Dividends	217	88
	20,787	17,283

¹. On 21 November 2014 nib sold the 5,294,118 shares held in Pacific Smiles Group (PSG) as part of PSG's IPO process.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

5. EXPENSES

	Notes	Half year	
		31 Dec 14	31 Dec 13
		\$000	\$000
Expenses by function			
Claims handling expenses		8,064	9,187
Acquisition costs		38,006	33,403
Other underwriting expenses		40,427	36,781
Other expenses		6,350	3,462
Finance costs		1,671	1,309
Investment expenses		788	749
Total expenses (excluding direct claims expenses)		95,306	84,891
Expenses by nature			
Employee costs		37,876	34,307
Depreciation and amortisation		6,386	5,837
Finance costs		1,671	1,309
Net (gain) / loss on disposal of property, plant and equipment		(1)	71
Impairment of goodwill	8	1,423	-
Operating lease rental expenses		1,758	1,508
Marketing expenses		15,842	13,523
Marketing expenses - commissions		14,071	12,318
Merger and acquisition costs		672	196
Electronic claims processing fees		1,643	1,829
Bank charges		963	962
Consultancy fees		1,491	1,245
Legal expenses		334	620
Postages		1,094	1,127
Share registry expenses		749	645
Software maintenance		2,809	2,650
Investment expenses		788	749
Other		5,737	5,995
Total expenses (excluding direct claims expenses)		95,306	84,891

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

6. INCOME TAX

	Half year	
	31 Dec 14	31 Dec 13
Notes	\$000	\$000
a) Income tax expense		
Recognised in the income statement		
Current tax expense	15,540	10,642
Deferred tax expense	4,058	6,345
Under (over) provided in prior years - research and development tax credit	(326)	-
	19,272	16,987
Income tax expense is attributable to:		
Profit from continuing operations	19,272	16,987
Aggregate income tax expense	19,272	16,987
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets	1,010	1,646
Increase in deferred tax liabilities	3,048	4,699
	4,058	6,345
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	60,399	56,607
Tax at the Australian tax rate of 30% (2013: 30%)	18,120	16,982
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Goodwill impairment	427	-
Fair value adjustment to contingent consideration	(202)	-
Share-based payments	(189)	42
Entertainment	20	7
Merger and acquisition costs	-	31
Sundry items	1	-
Imputation credits and foreign tax credits	(65)	(26)
Adjustment for current tax of prior periods - research and development tax credit	(326)	-
Unrecognised tax losses and deferred tax assets	1,510	-
Differences in foreign tax rates	(24)	(49)
Income tax expense	19,272	16,987
c) Tax expense relating to items of other comprehensive income		
Foreign currency translations	84	546
Gain on revaluation of land and buildings	-	1,355
Change in value of available for sale financial assets	(604)	196
	(520)	2,097
d) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	4,699	-
Potential tax benefit @ 30%	1,410	-

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec 14	30 Jun 14
	\$000	\$000
Equity securities	53,595	53,631
Interest-bearing securities	332,513	304,935
Short term deposits	50,144	50,138
Derivative financial instruments - interest rate sw ap contracts	2,358	2,075
	438,610	410,779

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

8. INTANGIBLE ASSETS

	Goodwill	Software	Brands and Trademarks	Customer Contracts	Total
	\$000	\$000	\$000	\$000	\$000
At 1 July 2013					
Cost	52,515	37,696	6,580	22,718	119,509
Accumulated amortisation and impairment	-	(23,745)	(740)	(3,754)	(28,239)
Net book amount	52,515	13,951	5,840	18,964	91,270
Year ended 30 June 2014					
Opening net book amount	52,515	13,951	5,840	18,964	91,270
Additions	-	6,122	-	-	6,122
Acquisition of subsidiary	1,423	-	-	-	1,423
Amortisation charge for the year	-	(4,839)	(1,355)	(2,338)	(8,532)
Exchange differences	2,688	294	139	1,774	4,895
Closing net book amount	56,626	15,528	4,624	18,400	95,178
At 30 June 2014					
Cost	56,626	43,338	6,832	24,667	131,463
Accumulated amortisation and impairment	-	(27,810)	(2,208)	(6,267)	(36,285)
Net book amount	56,626	15,528	4,624	18,400	95,178
Half year ended 31 December 2014					
Opening net book amount	56,626	15,528	4,624	18,400	95,178
Additions	-	3,738	-	-	3,738
Amortisation charge for the year	-	(2,805)	(566)	(1,118)	(4,489)
Impairment charge ¹	(1,423)	-	-	-	(1,423)
Exchange differences	847	119	(15)	465	1,416
Closing net book amount	56,050	16,580	4,043	17,747	94,420
At 31 December 2014					
Cost	57,473	47,249	6,911	25,281	136,914
Accumulated amortisation and impairment	(1,423)	(30,669)	(2,868)	(7,534)	(42,494)
Net book amount	56,050	16,580	4,043	17,747	94,420

¹ The carrying amount of the nib Options segment goodwill has been reduced to nil through recognition of an impairment loss against goodwill. This loss has been disclosed as a separate line item in profit or loss.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

9. BORROWINGS

	31 Dec 14	30 Jun 14
	\$000	\$000
Current		
Bank overdraft	1,412	1,768
	1,412	1,768
Non-current		
Bank loans (secured)	66,964	65,081
	66,964	65,081

The bank overdraft comprises the closing positive balance of the bank account, adjusted for un-presented cheques and outstanding deposits.

Movements in the bank loans (secured) are as follows:

	31 Dec 14	30 Jun 14
	\$000	\$000
Balance at beginning of period	65,081	59,149
Amortisation of borrowing expenses	28	56
Exchange differences	1,855	5,876
Balance at end of period	66,964	65,081

a) Secured liabilities

nib nz holdings limited, a wholly owned subsidiary of nib holdings limited, has a NZD\$70 million variable rate term loan facility in relation to the acquisition of nib nz limited with maturity and repayment at the end of three years being 18 December 2017.

The bank loan is secured by the shares in nib nz holdings limited and a negative pledge that imposes the following covenants on the Group. The negative pledge states that the Group will ensure that the following financial ratios are met:

- (i) The Group Gearing Ratio will not be more than 35%
- (ii) The Group Interest Cover Ratio will be not less than 5:1.

As at 31 December 2014 the Group Gearing Ratio was 17.1% and the Group Interest Cover Ratio was 38:1.

nib holdings limited has provided a guarantee and indemnity to the ANZ Bank New Zealand on behalf of nib nz holdings limited in respect of the NZD\$70 million term loan facility.

nib holdings limited has subordinated any amounts owing to it from nib nz holdings limited and nib nz limited in favour of all other creditors of these companies.

b) Available debt facility

nib holdings limited has entered into a AUD\$50 million debt facility that has not been drawn down as at 31 December 2014.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

10. OUTSTANDING CLAIMS LIABILITY

	31 Dec 14	30 Jun 14
	\$000	\$000
Outstanding claims - central estimate of the expected future payment for claims incurred	68,409	74,536
Risk Margin	2,894	3,408
Administration component	1,039	1,375
Gross outstanding claims liability	72,342	79,319
Outstanding claims - expected payment to the RETF* in relation to the central estimate	14,115	13,742
Risk Margin	607	591
Net outstanding claims liability	87,064	93,652

* Risk Equalisation Trust Fund (RETF) Levy represents expenses incurred under Risk Equalisation Trust Fund arrangements which are provided for within the legislation to support the principle of community rating

Movements in the gross outstanding claims are as follows:

	31 Dec 14	30 Jun 14
	\$000	\$000
Gross outstanding claims at beginning of period	79,319	68,039
Risk margin	(3,408)	(3,771)
Administration component	(1,375)	(1,220)
Central estimate at beginning of period	74,536	63,048
Change in claims incurred for the prior year	(4,876)	(3,247)
Claims paid in respect of the prior year	(65,590)	(60,121)
Claims incurred during the year (expected)	561,452	1,034,646
Claims paid during the year	(497,341)	(960,695)
Effect of changes in foreign exchange rates	228	905
Central estimate at end of period	68,409	74,536
Risk margin	2,894	3,408
Administration component	1,039	1,375
Gross outstanding claims at end of period	72,342	79,319

a) Actuarial methods

The outstanding claims estimate for Australian segments is derived based on three valuation classes, namely hospital and prostheses services combined, medical services, and general treatment. For the New Zealand segment the outstanding claims estimate is derived based on two valuation classes, surgical and medical. This analysis is supplemented by more granular analysis within classes as appropriate.

In calculating the estimated cost of unpaid claims for arhi and nib nz, two methods are used. For service months October 2014 and earlier for hospital and medical, and for all months for general treatment, a chain ladder method is used; this assumes that the development pattern of the current claims will be consistent with historical experience. For hospital and medical, for the service months of November 2014 and December 2014 the Bornhuetter-Ferguson method is used, which progressively blends payment experience and prior forecasts of incurred costs.

For iwhi and ishi a chain ladder method is used for all service months for the valuation of the cost of unpaid claims.

As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balance.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

10. OUTSTANDING CLAIMS LIABILITY continued

b) Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability for claims incurred 12 months to the following financial years:

	31 Dec 14			30 Jun 14		
	Hospital %	Medical %	Ancillary %	Hospital %	Medical %	Ancillary %
Australian Residents Health Insurance						
Assumed proportion paid to date	93.2%	91.0%	97.1%	92.1%	89.7%	96.5%
Expense rate	1.4%	1.4%	1.4%	1.7%	1.7%	1.7%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	2.8%	2.8%	2.8%	3.3%	3.3%	3.3%
Risk equalisation rate	29.9%	29.9%	0.0%	26.9%	26.9%	0.0%
Risk margin for risk equalisation	4.3%	4.3%	0.0%	4.3%	4.3%	0.0%
International Students Health Insurance						
Assumed proportion paid to date	72.2%	86.5%	99.1%	74.8%	82.1%	98.6%
Expense rate	2.4%	2.4%	2.4%	1.70%	1.70%	1.70%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	19.8%	19.8%	19.8%	19.6%	19.6%	19.6%
International Workers Health Insurance						
Assumed proportion paid to date	85.5%	86.5%	90.6%	85.5%	82.5%	87.0%
Expense rate	4.0%	4.0%	4.0%	8.0%	8.0%	8.0%
Discount rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk margin	23.5%	23.5%	23.5%	23.2%	23.2%	23.2%
NZ Health Insurance						
	Surgical %	Medical %		Surgical %	Medical %	
Assumed proportion paid to date	90.6%	79.7%		88.9%	78.5%	
Expense rate	1.75%	1.75%		1.6%	1.6%	
Discount rate	0.0%	0.0%		0.0%	0.0%	
Risk margin	7.4%	7.4%		8.5%	8.5%	

The risk margin of 2.8% for arhi (June 2014: 3.3%), ishi 19.8% (June 2014: 19.6%), 23.5% for iwhi (June 2014: 23.2%) and nib nz 7.4% (June 2014: 8.5%) of the underlying liability has been estimated to equate to a probability of adequacy of 95% for the Group. The risk margin within each territory allows for diversification across the entity. The benefit of diversification across the Group is again allocated to the arhi segment.

c) Sensitivity analysis

iv) Impact of key variables

Variable	Movement in variable	Adjustments \$000	Profit after tax 31 Dec 14 \$000		Equity 31 Dec 14 \$000
			Adjusted amounts \$000	Adjustments \$000	Adjusted amounts \$000
Recognised amounts in the financial statements			41,362		332,635
Chain Ladder Development Factors	+0.5%	(3,479)	37,883	(3,479)	329,156
	-0.5%	3,479	44,841	3,479	336,114
Bornhuetter-Ferguson Unpaid Factors	+2.0%	(2,409)	38,953	(2,409)	330,226
	-2.0%	2,409	43,771	2,409	335,044
Expense rate	+1.0%	(496)	40,866	(496)	332,139
	-1.0%	518	41,880	518	333,153
Risk equalisation allowance	+2.5%	(861)	40,501	(861)	331,774
	-2.5%	861	42,223	861	333,496
Risk margin	+1.0%	(587)	40,775	(587)	332,048
	-1.0%	587	41,949	587	333,222

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

11. PREMIUM PAYBACK LIABILITY

	31 Dec 14	30 Jun 14
	\$000	\$000
Current		
Premium payback liability	7,597	7,496
	7,597	7,496
Non current		
Premium payback liability	34,901	33,254
	34,901	33,254

Movements in the premium payback liability are as follows:

	31 Dec 14	30 Jun 14
	\$000	\$000
Gross premium payback liability at beginning of period	40,750	40,214
Adjustment to ensure reserve exceeds current payout on early lapse	(1,733)	(1,167)
Value of payments currently being processed	(1,033)	(1,191)
Risk margin	(1,156)	(1,954)
Central estimate at beginning of period	36,828	35,902
Funding/new accrued	3,096	5,878
Unwind discount rate	852	1,757
Interest rate movement impact	1,006	(1,195)
Premium payback payments	(4,041)	(9,765)
Others	(9)	759
Effect of changes in foreign exchange rates	1,092	3,492
Central estimate at end of year/period	38,824	36,828
To ensure reserve exceeds current payout on early lapse	1,084	1,733
Value of payments currently being processed	1,225	1,033
Risk margin	1,365	1,156
Gross outstanding claims at end of period	42,498	40,750

a) Actuarial methods

A risk margin at 95% probability of sufficiency was estimated by assuming there are no future lapses. Most of the premium payback reserve is held in respect of a group of customers where the historical lapse rate is already very low.

The following assumptions have been made in determining the premium payback liability:

	31 Dec 14	30 Jun 14
Lapse rate until 3 years from premium payback date	2.0% - 11.0%	2.0% - 13.0%
Lapse rate within 3 years of premium payback date	0.0% - 1.0%	0.0% - 1.0%
Expense rate	0.0%	0.0%
Discount rate for succeeding and following year	3.5% - 3.6%	3.8% - 4.2%
Risk margin	3.3%	2.6%

The risk margin has been estimated to equate to a 95% probability of adequacy (June 2014: 95%).

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

11. PREMIUM PAYBACK LIABILITY continued

b) Sensitivity analysis

i) *Impact of key variables*

		Profit after tax		Equity	
		31 Dec 14		31 Dec 14	
		\$000		\$000	
Recognised amounts in the financial statements		41,362		332,635	
Variable	Movement in variable	Adjustments	Adjusted amounts	Adjustments	Adjusted amounts
		\$000	\$000	\$000	\$000
Lapse Rate	+1.0%	790	42,152	790	333,425
	-1.0%	(847)	40,515	(847)	331,788
Discount Rate	+1.0%	1,117	42,479	1,117	333,752
	-1.0%	(1,343)	40,019	(1,343)	331,292
Risk margin	+1.0%	(209)	41,153	(209)	332,426
	-1.0%	209	41,571	209	332,844

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

12. DIVIDENDS

a) Ordinary shares

	Half year	
	31 Dec 14	31 Dec 13
	\$000	\$000
Final dividend for the year ended 30 June 2014 of 14.75 cents per fully paid ordinary share, made up of 5.75 cps ordinary dividend and 9.0 cps special dividend (2013: 5.0 cents per fully paid ordinary share, made up of 5.0 cps ordinary dividend) paid on 3 October 2014		
Fully franked based on tax paid @ 30%	64,748	21,948

b) Dividends not recognised at half year

	Half year	
	31 Dec 14	31 Dec 13
	\$000	\$000
In addition to the above dividends, since the end of the half year the Directors have recommended the payment of a interim dividend of 5.5 cents per fully paid ordinary share, made up of 5.5 cps ordinary dividend (2013: 5.25 cents per fully paid ordinary share, made up of 5.25 cps ordinary dividend), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 2 April 2015 out of retained profits at 31 December 2014, but not recognised as a liability at the end of the half year, is		
	24,145	23,048

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

13. CAPITAL MANAGEMENT

nib holdings limited

The Group through earnings and capital management have achieved a return on equity of 20% or greater for the last three years and continues to target return on equity in the order of 20%. The return on equity as at 31 December 2014 is 21.4%. (June 2014: 20.8%). While improvement to return on equity can be made through increased profitability, it is also important that capital be managed appropriately, therefore, if funds are not required for strategic reasons the Group will consider a range of capital management initiatives.

At 31 December 2014 the Group had available capital of \$47.5 million above our internal benchmark (after allowing for the payment of a fully franked interim dividend of 5.5 cents per share, made up of 5.5 cps ordinary dividend, totalling \$24.1 million, in April 2015).

Below is a reconciliation of total assets to available capital as at 31 December 2014:

	2014 \$m
Net assets	332.3
Less: nib health fund capital required	(213.2)
nib nz capital required	(52.4)
nib nz intangibles	(42.3)
International Workers (iw hi) intangibles	(23.7)
Borrowings	67.0
Other assets and liabilities	3.9
Interim dividend	(24.1)
Available capital (after allowing for payment of an interim dividend)	47.5

nib health funds limited

nib health funds limited, a controlled entity, is required to comply with the Solvency and Capital Adequacy Standards under Schedule 2 and 3 of the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, the Rules are made for the purposes of Part 4-4 of the *Private Health Insurance Act 2007*.

To comply with the new Solvency Standard (which commenced on 1 July 2014), nib health funds limited:

- (i) must ensure that, at all times, the value of cash must be equal to or greater than a specified cash management amount, plus any solvency supervisory adjustment (Section 4.2 of the Solvency Standard),
- (ii) must have, and comply with, a board endorsed, liquidity management plan designed to ensure compliance with the solvency requirements described above, and set minimum liquidity requirements and management action triggers (Section 4.3 of the Solvency Standard).

To comply with the Capital Adequacy Standard, nib health funds limited:

- (i) must ensure that at all times the value of its assets is not less than the amounts calculated under Section 4.2 (a) and (b) of the Capital Adequacy Standard (Capital Adequacy Requirement),
- (ii) must have, and comply with, a written, board endorsed capital management policy

nib health funds limited has a capital management plan which establishes a target for capital held in excess of the regulatory requirement; the aim is to keep a sufficient buffer in line with the Board's attitude to and tolerance for risk. The internal capital target ensures nib has a minimum level of capital given certain stressed capital scenarios. This currently approximates to 13.5% of total projected premiums for the next 12 months.

Any capital in excess of the benchmark, taking a 12-month forward looking view, will be reduced by way of dividend to nib holdings limited.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

13. CAPITAL MANAGEMENT continued

The surplus assets over benchmark at 31 December 2014 and 30 June 2014 were as follows:

	31 Dec 14	30 Jun 14
	\$000	\$000
Total Assets nib health funds limited (excluding unclosed business contributions - unearned)	510,130	506,722
Capital Adequacy Requirement	323,286	326,268
Surplus Assets for Capital Adequacy	186,844	180,454
Net Assets nib health funds limited	221,587	205,933
Internal capital target	211,251	200,797
Surplus assets over internal capital target	10,336	5,136

nib nz limited

nib nz limited, a controlled entity, is required to comply with the Solvency Standards for Non-Life insurance Business published by the Reserve Bank of New Zealand (RBNZ). The Solvency Standards determine the Minimum Solvency Capital required. A requirement of nib nz limited's insurance licence is that it maintains capital above the Minimum Solvency Capital.

The overriding objective underpinning nib nz limited's capital management approach is to operate with a level of capital judged to be commercially prudent and within the bounds of the Board's risk appetite which achieves a balance between:

- maintaining a buffer above the RBNZ Minimum Solvency Requirement (MSR) for nib nz limited (as defined by the IPSA Solvency Standard for Non-life Insurance Business);
- maintaining a level of capital that ensures an appropriate financial strength rating; and
- avoiding holding an excessive level of capital, which would otherwise act to reduce returns on capital for the Group.

The benchmark capital adequacy coverage ratio is 1.75x plus \$NZ10 million (June 14: 1.75x plus \$NZ10 million)

The surplus assets over benchmark at 31 December 2014 and 30 June 2014 are as follows:

	31 Dec 14	30 Jun 14
	\$000	\$000
Actual Solvency Capital	33,338	29,615
Minimum Solvency Capital	9,393	7,823
Solvency Capital	23,945	21,792
Capital Adequacy Coverage Ratio	3.55	3.79
Internal benchmark	1.75 + \$NZ10m	1.75 + \$NZ10m
Internal benchmark requirement	26,013	23,000
Surplus assets over internal benchmark	7,325	6,615

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

14. CONTROLLED ENTITIES

a) Subsidiaries and trusts

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities.

	Place of Incorporation	Beneficial ownership by	
		Consolidated entity	
		31 Dec 14	30 Jun 14
		%	%
nib holdings limited	Australia		
nib health funds limited	Australia	100	100
nib servicing facilities pty limited	Australia	100	100
nib health care services pty limited	Australia	100	100
The Heights Private Hospital Pty Limited	Australia	100	100
IMAN Australian Health Plans Pty Limited	Australia	100	100
nib nz holdings limited (previously nib nz limited)	New Zealand	100	100
nib nz limited (previously Tower Medical Insurance Limited)	New Zealand	100	100
nib Options pty limited	Australia	92.5	92.5
RealSurgeons pty limited	Australia	92.5	92.5
RealSelf pty limited	Australia	92.5	92.5
Digital Health Ventures Pty Ltd	Australia	50	N/A

nib holdings limited also controls the following trusts:

- nib Holdings Ltd Share Ownership Plan Trust
- nib salary sacrifice plan and matching plan trust
- nib Salary Sacrifice (NZ) and Matching Plan (NZ) Trust
- nib holdings – nib nz Employee Share Purchase Scheme Trust

b) Transactions with non-controlling interests

On 8 August 2014 the Group acquired 50% of the issued capital of Digital Health Ventures Pty Ltd (incorporated on 8 August 2014).

The effect on equity attributable to owners of nib holdings limited during the year from all non-controlling interests is summarised as follows:

	31 Dec 14	30 Jun 14
	\$000	\$000
Consideration paid by non-controlling interests	-	81
	-	81

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

15. EVENTS OCCURRING AFTER BALANCE SHEET DATE

On 6 February 2015, nib health funds limited announced an agreement with the Saudi Arabian Cultural Attaché Office in Canberra to provide comprehensive medical and hospital cover for their scholarship students, diplomats and their dependents in Australia. The relationship will see nib become the sole Australian health insurer for almost 13,000 Saudi customers living in the country with annual premium income around \$32 million. Due to enrolment timing and expected seasonal claims experience, the Saudi business is not expected to materially impact nib's Group operating profit in financial year 2015.

There have not been any other matters or circumstances that have arisen since the end of the half year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

16. PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information.

The individual financial statements for the parent entity show the following aggregate amounts:

	31 Dec 14	30 Jun 14
	\$000	\$000
Balance Sheet		
ASSETS		
Current assets	53,355	97,867
Non-current assets	435,735	435,833
Total assets	489,090	533,700
LIABILITIES		
Current liabilities	3,871	4,540
Non-current liabilities	-	584
Total liabilities	3,871	5,124
NET ASSETS	485,219	528,576
EQUITY		
Share Capital	297,178	297,178
Share-based payments	(1,227)	(615)
Retained Profits	189,268	232,013
Total Equity	485,219	528,576
	31 Dec 14	31 Dec 13
	\$000	\$000
Profit or loss for the half year	22,008	793
Total comprehensive income for the half year	22,008	793

Notes to the Consolidated Financial Statements continued

For the half year ended 31 December 2014

nib holdings limited

17. COMPANY DETAILS

nib holdings limited is a company limited by shares, incorporated and domiciled in Australia. The registered office of the company is:

22 Honeysuckle Drive
NEWCASTLE NSW 2300

The Financial Report was authorised for issue by the Directors on 20 February 2015. The company has the power to amend and reissue the Financial Report.

Directors' Declaration

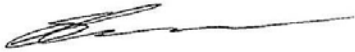
For the half year ended 31 December 2014
nib holdings limited

In the Directors' opinion:

- a) the financial statements and notes set out on pages 6 to 36 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half year ended on that date; and
- b) there are reasonable grounds to believe that nib holdings limited 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.

On behalf of the Board



Steve Crane
Director



Harold Bentley
Director

Newcastle, NSW
20 February 2015



Independent auditor's review report to the members of nib holdings limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of nib holdings limited (the Company), which comprises the consolidated balance sheet as at 31 December 2014, the consolidated income statement and 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, selected explanatory notes and the directors' declaration for the nib group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of nib holdings limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of nib holdings limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

C. Mara

Caroline Mara
Partner

Newcastle

20 February 2015