Cover-More
GROUP LIMITED

13 February 2017

The Manager
Companies Announcement Office
Australian Securities Exchange

**Via E-lodgement**

Dear Sir/Madam,

**COVER-MORE GROUP LIMITED 2017 INTERIM RESULTS**

Please find attached the Appendix 4D Half Year Report, Directors' Report, the Financial Report and Auditor's Independent Review Report for the half-year ended 31 December 2016.

This information should be read in conjunction with Cover-More Group Limited's 2016 Annual Report.

This announcement comprises the information required by ASX Listing Rule 4.2A and the statement required by Rule 4.2C.2.

Yours sincerely,

Mark Steinberg
Company Secretary

TRAVEL INSURANCE • MEDICAL ASSISTANCE

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# Appendix 4D
# Half-year report
# For the half-year ended 31 December 2016

## Name of entity

## Cover-More Group Limited

**The following information must be given to the ASX under listing rule 4.2A.3.**

| | |
|---|---|
| ABN: | 79 166 776 334 |
| Current period | 1 July 2016 to 31 December 2016 |
| Previous corresponding period | 1 July 2015 to 31 December 2015 |

## Results for announcement to the market

| | Half-year ended 31 December 2016 $'000 | Half-year ended 31 December 2015 $'000 | Movement up/(down) $'000 | Movement % |
|---|---|---|---|---|
| Revenues from ordinary activities | 110,453 | 103,084 | 7,369 | 7.15 |
| Profit from ordinary activities after tax attributable to members | 8,598 | 8,154 | 444 | 5.45 |
| Net profit attributable to members | 8,598 | 8,154 | 444 | 5.45 |

No interim dividends were declared.

*Commentary on results for the period*

The profit after income tax has increased to $8.598 million during the half-year ended 31 December 2016 mainly due to the impact of the Travelex Insurance Services Inc. ("Travelex") acquisition, lower intangible amortisation charges following the completion of amortisation of a material customer contract and foreign exchange gains. This has been partially offset by the transaction costs associated with the Travelex Insurance Services Inc. acquisition, initial start-up costs associated with operations in the US and costs relating to the scheme of implementation agreement with Zurich Insurance Company Ltd.

## Dividends

| | Amount per security Cents | Franked amount per security % |
|---|---|---|
| **2017** | | |
| **Half-year** | | |
| Interim dividend | - | N/A |
| **2016** | | |
| **Year-end** | | |
| Final dividend | 2.6 | 100 |
| **Half-year** | | |
| Interim dividend | 2.1 | 100 |

No interim dividends were declared.

There is no active dividend reinvestment plan.

## Review and results of operation

Refer to the accompanying Interim Report for Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statements of Cash Flows and Notes to the Financial Statements.

Also refer to the Directors' Report in the accompanying Interim Report for details on the result of operating performance for the half-year ended 31 December 2016.

## Net tangible assets per security

| | 31 December 2016 Cents per share | 31 December 2015 Cents per share |
|---|---|---|
| Net assets per ordinary share | 73.5 | 61.9 |
| Net tangible assets per ordinary share | (30.7) | (16.1) |

Refer to the Consolidated Balance Sheet and related notes in the accompanying Interim Report.

## Control gained or lost over entities

| | |
|---|---|
| Name of entity | Travelex Insurance Services Inc. |
| Date of the gain of control | 16 November 2016 |
| Contribution of such entity to the reporting entity's profit from ordinary activities during the period ($'000) | 1,034 |
| Profit/(loss) of such entity during the whole of the previous corresponding period ($'000)* | 2,923 |

| | |
|---|---|
| Name of entity | Stratos Limited |
| Date of the gain of control | 31 August 2016 |
| Contribution of such entity to the reporting entity's profit from ordinary activities during the period ($'000) | 77 |
| Profit/(loss) of such entity during the whole of the previous corresponding period ($'000)* | 51 |

*These amounts have been calculated on a pro-forma basis and include adjustments for the difference in the accounting policies between Cover-More Group Limited and the acquired subsidiaries.

## Details of associates and joint venture entities

None.

Cover-More GROUP LIMITED

# Interim Report Half-year ended 31 December 2016

Cover-More Group of Companies
ABN: 79 166 776 334

# Contents

# Our pro-forma 2017 half-year performance

The following pages provide an overview of the pro-forma H1 FY2017 performance against the pro-forma performance for H1 FY2016. This section has not been subject to audit or independent review by the external auditor. The pro-forma accounting basis primarily reflects the acquisition of Travelex Insurance Services Inc. ("TIS") as if it had occurred prior to 1 July 2015. In addition, adjustments have been made to exclude the impact of acquisition-related costs of TIS and the costs associated with the scheme implementation agreement with Zurich Insurance Company Ltd ("Zurich"), and to include Cover-More Group Limited's estimates of TIS's additional standalone costs for the period prior to the acquisition date. Refer to the "Significant changes in the state of affairs" section in the Director's report on pages 10 to 12 for details of the TIS acquisition and the Zurich agreement. There have been no pro-forma adjustments for the acquisition of Stratos Limited ("Stratos"), which was completed on 31 August 2016, due to materiality considerations (i.e. Stratos results have been included from the acquisition date).

**Reconciliation of Statutory Revenue and Statutory Profit Before Income Tax to Pro-forma Net Revenue and Pro-forma EBITDA**

*Table A: Pro-forma adjustments to the statutory consolidated income statement for H1 FY2017 and H1 FY2016*

| A$ in millions | **H1 FY2017** | H1 FY2016 |
|---|---|---|
| **Statutory revenue** | **110.5** | 103.1 |
| Pro-forma impact of historical acquisitions[1] | **8.5** | 11.6 |
| Reclassification from other income | **0.6** | 1.3 |
| **Pro-forma net revenue** | **119.6** | 116.0 |
| | | |
| **Statutory profit before income tax** | **13.4** | 11.6 |
| Acquisition-related costs[2] | **1.2** | - |
| Scheme of arrangement-related costs[3] | **0.7** | - |
| Depreciation and amortisation expense | **4.8** | 7.3 |
| Interest income | **(0.1)** | (0.1) |
| Interest expense | **2.5** | 1.6 |
| Foreign exchange gain | **(1.7)** | - |
| **Adjusted EBITDA** | **20.8** | 20.4 |
| Pro-forma impact of historical acquisitions[1] | **3.1** | 5.0 |
| **Pro-forma EBITDA** | **23.9** | 25.4 |

[1] The pro-forma impact of the TIS acquisition in H1 FY2017 relates to the period from 1 July 2016 to 15 November 2016. The pro-forma impact of the TIS acquisition in H1 FY2016 relates to the full six-month period.
[2] Costs incurred in respect of the TIS acquisition
[3] Costs incurred in respect of the scheme implementation agreement with Zurich

**Pro-forma Performance**

*Table B: Summary pro-forma consolidated performance for H1 FY2017 and H1 FY2016*

| A$ in millions | **Pro-forma H1 FY2017** | Pro-forma H1 FY2016 |
|---|---|---|
| Gross Travel Insurance sales | **304.1** | 284.7 |
| Gross Medical Assistance sales | **34.6** | 32.8 |
| **Gross sales - total**[1] | **338.7** | 317.5 |
| | | |
| Net Travel Insurance sales | **85.0** | 83.2 |
| *% of Gross Travel Insurance sales* | ***28.0%*** | *29.2%* |
| Net Medical Assistance sales | **34.6** | 32.8 |
| **Total net revenue** | **119.6** | 116.0 |
| *%* | ***100.0%*** | *100.0%* |
| Cost of sales | **(68.7)** | (66.4) |
| **Gross margin** | **50.9** | 49.6 |
| % | ***42.6%*** | *42.8%* |
| Employment overheads | **(15.6)** | (13.0) |
| Occupancy costs | **(4.2)** | (3.9) |
| Other overheads | **(7.2)** | (7.3) |
| **Total overheads** | **(27.0)** | (24.2) |
| **EBITDA** | **23.9** | 25.4 |
| *%* | ***20.0%*** | *21.9%* |

[1] Gross sales is un-audited, non-IFRS financial information and does not represent revenue in accordance with Australian Accounting Standards. Gross sales represents the aggregate value of travel insurance premiums paid for the insurance policies by the policyholders across the Group's various operations, plus revenue from assistance services and other sources. The Group's revenue is derived from gross sales.

## Net Revenue

Net Revenue at $119.6 million was 3.1% higher than H1 FY2016.

## Travel Insurance

Growth in Gross Travel Insurance Sales (GTIS) of 6.8% reflects strong growth in India and New Zealand, and the commencement of organic travel insurance business in the US underpinned by a relationship with a major distribution partner. Australian growth was tempered by the loss of a client at the beginning of the period. Offsetting factors to growth in GTIS included initial higher commission rates for some new Indian distributors and incremental underwriting payments in Australia as the business transitioned to a generalised linear model.

H1 FY2017 net revenue at 28.0% of GTIS was below H1 FY2016 at 29.2%.

## Medical Assistance

Medical Assistance Revenue was up 5.5% versus H1 FY2016, primarily due to strong growth in the Employee Assistance business.

## Overheads

Overheads of $27.0 million were 11.6% higher than H1 FY2016. The primary drivers of higher overheads included costs associated with transition to a new operating model, duplication of senior executive costs for most of the period and associated recruitment fees.

## EBITDA

H1 FY2017 EBITDA at $23.9 million was 5.9% below H1 FY2016. While Travel Insurance Australia delivered a consistent performance for the period, the overall performance was negatively impacted by start-up costs supporting organic growth in the US and underperformance in both China Medical Assistance and the UK Travel Insurance operations.

**Pro-forma Performance by Segment**

**Operating Segments**

*Table C: Summary pro-forma consolidated performance by operating segment for H1 FY2017 and H1 FY2016*

| A$ in millions | **Pro-forma H1 FY2017** | Pro-forma H1 FY2016 |
|---|---|---|
| Travel Insurance | **85.0** | 83.2 |
| Medical Assistance | **34.6** | 32.8 |
| **Net revenue** | **119.6** | 116.0 |
| | | |
| Travel Insurance | **36.6** | 36.4 |
| Medical Assistance | **14.3** | 13.2 |
| **Gross margin** | **50.9** | 49.6 |
| | | |
| Travel Insurance | **15.5** | 17.3 |
| Medical Assistance | **8.4** | 8.1 |
| **EBITDA** | **23.9** | 25.4 |

The Travel Insurance gross margin ratio of 43.1% is 0.7 percentage points lower than H1 FY2016 due mainly to initial start-up costs associated with operations in the US.

The Medical Assistance gross margin ratio of 41.3% is 1.1 percentage points higher than H1 FY2016 due mainly to lower labour costs in the Travel Medical Assistance business and a change in business mix in the Medical Assistance portfolio, with a lower contribution from China.

Travel Insurance EBITDA at $15.5 million is 10.4% lower than H1 FY2016 due mainly to initial start-up costs associated with operations in the US and underperformance in the UK.

Medical Assistance EBITDA at $8.4 million is 3.7% higher than H1 FY2016 due mainly to improved margins in the Australian Travel Medical Assistance business which experienced lower labour costs.

**Geographic Segments**

*Table D: Summary pro-forma consolidated performance by geography for H1 FY2017 and H1 FY2016*

| A$ in millions | **Pro-forma H1 FY2017** | Pro-forma H1 FY2016 |
|---|---|---|
| Australia, NZ, UK | **95.7** | 93.6 |
| North America | **13.6** | 11.6 |
| Asia | **10.3** | 10.8 |
| **Net revenue** | **119.6** | 116.0 |
| | | |
| Australia, NZ, UK | **38.3** | 35.8 |
| North America | **8.0** | 9.1 |
| Asia | **4.6** | 4.7 |
| **Gross margin** | **50.9** | 49.6 |
| | | |
| Australia, NZ, UK | **19.2** | 19.0 |
| North America | **3.6** | 5.0 |
| Asia | **1.1** | 1.4 |
| **EBITDA** | **23.9** | 25.4 |

A separate geographic segment for North America is now presented due to the commencement of the travel insurance business in the US in H2 FY2016 and the acquisition of TIS in H1 FY2017. The pro-forma accounting basis primarily reflects the acquisition of TIS as if it had occurred prior to 1 July 2015.

Asia net revenue was adversely impacted by  initial higher commission rates for some new Indian distributors and lower emergency evacuation revenue from China.

Asia gross margin ratio of 44.7% is 1.2 percentage points higher than H1 FY2016 due a change in portfolio mix, with a greater contribution from India which operates at a higher average gross margin than the overall Asian portfolio. Asia EBITDA at $1.1 million is $0.3 million lower than H1 FY2016 due to a lower contribution from China and initial higher commission rates for some new Indian distributors.

Australia, NZ, UK net revenue increased by 2.2% compared to H1 FY2016, led by strong underlying growth in Australia and NZ offset by the loss of client in Australia at the beginning of the period.  Australia, NZ, UK gross margin ratio of 40.0% is 1.8 percentage points higher than H1 FY2016 due mainly to an increase in margins in the travel insurance business in Australia.

North America net revenue increased by 17.2% compared to H1 FY2016 due largely to Cover-More commencing travel insurance business in the US in H2 FY2016.  North America gross margin ratio of 58.8% is below H1 FY2016 at 78.4% due mainly to initial start-up costs associated with operations in the US including additional resourcing to support a major distribution partner.

North America EBITDA of $3.6 million, $1.4 million lower than H1 FY 2016, was also impacted by the initial start-up costs associated with operations in the US.  The performance of TIS was consistent with the prior period.

### Pro-forma Corporate Expenses Analysis

*Table E: Pro-forma corporate expenses by operating segment for H1 FY2017 and H1 FY2016*

| A$ in millions | **Pro-forma H1 FY2017** | Pro-forma H1 FY2016 |
|---|---|---|
| Corporate expenses allocated to Travel Insurance | **0.6** | 0.7 |
| Corporate expenses allocated to Medical Assistance | **0.1** | 0.1 |
| **Total corporate expenses** | **0.7** | 0.8 |

*Table F: Pro-forma corporate expenses by geography for H1 FY2017 and H1 FY2016*

| A$ in millions | **Pro-forma H1 FY2017** | Pro-forma H1 FY2016 |
|---|---|---|
| Corporate expenses allocated to Australia, NZ, UK | **0.6** | 0.7 |
| Corporate expenses allocated to North America | **-** | - |
| Corporate expenses allocated to Asia | **0.1** | 0.1 |
| **Total corporate expenses** | **0.7** | 0.8 |

## Net Borrowings

*Table G: Net borrowings as at 31 December 2016 and 30 June 2016*

| A$ in millions | **31 December 2016** | 30 June 2016 |
|---|---|---|
| Borrowings(1) | **(143.1)** | (63.8) |
| Cash and cash equivalents | **38.7** | 24.0 |
| **Net borrowings** | **(104.4)** | (39.8) |

(1) 31 December 2016 borrowings include: $146.4 million drawn down on banking facilities and are net of $3.4 million capitalised costs associated with the banking facility; and $0.1 million finance lease liabilities (30 June 2016: borrowings include $64.0 million drawn down on banking facilities and are net of $0.3 million capitalised costs associated with the banking facility; and $0.1 million finance lease liabilities).

On 14 October 2016, the Group amended its existing loan facilities held with Westpac Banking Corporation to increase the multi-option working capital facility from $32.5 million to $52.5 million. On 15 November 2016, the Group completed a further modification to the existing facilities to partially fund the acquisition of TIS. Included in the amendment was the syndication of a portion of the facility to another lender. The amended facilities are made up as follows:

- a bullet revolving term cash advance facility of $39.4 million;
- a multi-option working capital facility of $52.5 million; and
- a $100.0 million bullet term facility.

The amended facilities are valid for a term of two years.

On 16 November 2016, $72.8 million was drawn down from the amended loan facilities to partially fund the acquisition of TIS.

At 31 December 2016 undrawn bank facilities of $41.1 million were available for use (30 June 2016: $28.4 million) and a further $4.4 million (30 June 2016: $4.4 million) had been used as a guarantee for financial obligations.

## Reconciliation of Statutory Cash Flow to Pro-forma Cash Flow

*Table H: Pro-forma adjustments to the statutory consolidated statement of cash flows for H1 FY2017 and H1 FY2016*

| A$ in millions | H1 FY2017 | H1 FY2016 |
|---|---|---|
| **Statutory operating free cash flow after capital expenditure**[1] | **14.1** | 6.3 |
| Pro-forma impact of historical acquisitions | **1.9** | 4.5 |
| Cash impact of acquisition-related costs | **0.6** | - |
| Cash impact of scheme of arrangement-related costs | **0.1** | - |
| Income tax paid[2] | **5.4** | 8.0 |
| **Pro-forma operating free cash flow after capital expenditure** | **22.1** | 18.8 |

[1] The statutory operating free cash flow after capital expenditure is calculated as follows:

| | H1 FY2017 | H1 FY2016 |
|---|---|---|
| Net cash inflow from operating activities | $18.2 million | $10.8 million |
| Deduct: Net payments for plant, equipment and intangible assets | ($4.1 million) | ($4.5 million) |
| **Statutory operating free cash flow after capital expenditure** | **$14.1 million** | **$6.3 million** |

[2] Income tax paid is included in the net cash inflow from operating activities in the consolidated statement of cash flows.

## Summary Pro-forma Cash Flow

*Table I: Summary pro-forma consolidated cash flows for H1 FY2017 and H1 FY2016*

| A$ in millions | Pro-forma H1 FY2017 | Pro-forma H1 FY2016 |
|---|---|---|
| **EBITDA** | **23.9** | 25.4 |
| Non-cash items in EBITDA | **0.4** | (0.5) |
| Change in working capital | **2.3** | (1.6) |
| **Operating free cash flow before capital expenditure** | **26.6** | 23.3 |
| *% of EBITDA* | ***111.3%*** | *91.7%* |
| | | |
| **Capital expenditure** | | |
| Capitalisation of software | **(3.5)** | (3.6) |
| Net payments for property, plant and equipment | **(1.0)** | (0.9) |
| **Total capital expenditure** | **(4.5)** | (4.5) |
| | | |
| **Operating free cash flow after capital expenditure** | **22.1** | 18.8 |
| *% of EBITDA* | ***92.5%*** | *74.0%* |

Cash conversion before capital expenditure in H1 FY2017 improved relative to H1 FY2016, due to an ongoing focus on working capital management.

# Directors' report

**The Directors present their report on the consolidated entity consisting of Cover-More Group Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2016. Throughout the report, the consolidated entity is referred to as the Group.**

## Directors

The following persons were directors of Cover-More Group Limited during the half-year ended 31 December 2016 and up to the date of this report:

Louis Carroll (Chairman)
William Easton
Mike Emmett (appointed 4 July 2016)
Stephen Loosley
Trevor Matthews
Lisa McIntyre
Sam Mostyn
Peter Edwards (resigned 22 July 2016)

## Principal activities

The principal activities of the Group during the half-year ended 31 December 2016 were providing specialist and integrated travel insurance and medical assistance services within Australia, New Zealand, India, Malaysia, Singapore, China, the United Kingdom and the United States of America.

## Dividends

Dividends paid to members during the half-year ended 31 December were as follows:

| | **Half-year ended 31 December 2016 $'000** | Half-year ended 31 December 2015 $'000 |
|---|---|---|
| Final ordinary dividend for the year ended 30 June 2016 of 2.6 cents (2015 – 4.1 cents) per share paid on 14 October 2016 | **8,256** | 13,018 |
| | **8,256** | 13,018 |

No interim dividend has been declared. Refer to the "Scheme implementation agreement with Zurich Insurance Company Ltd" section on page 12 for details of a special dividend.

## Operating and financial review

The profit for the Group for the half-year ended 31 December 2016 after providing for income tax amounted to $8.598 million (31 December 2015: $8.154 million).

Earnings before interest, tax, depreciation and amortisation ("EBITDA") is a financial measure which is not prescribed by Australian Accounting Standards ("AASBs") and represents the profit under AASBs adjusted for specific non-cash and significant items. The directors consider EBITDA to reflect the core earnings of the consolidated entity. The following table summarises the key reconciling items between statutory profit before income tax attributable to the shareholders of Cover-More Group Limited and EBITDA for the half-year.

| | **Half-year ended 31 December 2016 $'000** | Half-year ended 31 December 2015 $'000 |
|---|---|---|
| **Profit before income tax** | **13,374** | 11,564 |
| Acquisition-related costs[(1)] | **1,168** | - |
| Scheme of arrangement-related costs[(2)] | **740** | - |
| Depreciation and amortisation expense | **4,762** | 7,258 |
| Interest income | **(105)** | (52) |
| Interest expense | **2,521** | 1,631 |
| Foreign exchange gain | **(1,697)** | - |
| **Adjusted EBITDA** | **20,763** | 20,401 |

(1) Costs incurred in respect of the TIS acquisition
(2) Costs incurred in respect of the scheme implementation agreement with Zurich

The Group continued to engage in its principal activities, the results of which are disclosed in the attached financial statements.

The financial position of the Group is sound with net assets of $278.311 million at 31 December 2016 (30 June 2016: $198.638 million).

The profit before income tax has increased to $13.374 million during the half-year ended 31 December 2016 mainly due to the impact of the Travelex Insurance Services Inc. ("TIS") acquisition, lower intangible amortisation charges following the completion of amortisation of a material customer contract and foreign exchange gains. This has been partially offset by the transaction costs associated with the TIS acquisition, initial start-up costs associated with operations in the US and costs relating to the scheme implementation agreement with Zurich Insurance Company Ltd.

## Significant changes in the state of affairs

**Acquisition of Travelex Insurance Services Inc.**

On 16 November 2016, Cover-More Group Limited acquired 100% of the issued shares in Travelex Insurance Services Inc. through its wholly owned subsidiary, Cover-More Holdings USA Inc., for a provisional consideration of USD 109.543 million (AUD 143.957 million). The provisional consideration includes a purchase price of USD 105.000 million (AUD 137.987 million), a net working capital adjustment of USD 4.543 million (AUD 5.970 million) which was determined at the financial close of the acquisition, and a contingent consideration. The contingent consideration, which could not be quantified at the balance date due to significant uncertainty, could result in an adjustment to the purchase consideration of up to a maximum of USD 2.500 million. The acquisition is expected to provide accelerated entry into North America and a platform for further expansion for the Group. Refer to Note 8 for more details on the acquisition.

The acquisition was funded through a pro-rata, accelerated non-renounceable entitlement offer (refer to Note 5) and a drawdown of the corporate bank debt facility (refer to Note 4).

**Capital raising**

Contributed equity increased by $71.069 million (net of transaction costs and tax) as a result of an accelerated non-renounceable entitlement offer comprising an institutional component and retail component to partially fund the acquisition of TIS. Details of the changes in contributed equity are disclosed in Note 5 to the consolidated financial statements.

**Refinancing of the borrowing facility**

On 14 October 2016, the Group amended its existing loan facilities held with Westpac Banking Corporation to increase the multi-option working capital facility from $32.500 million to $52.500 million. On 15 November 2016, the Group completed a further modification to the existing facilities to partially fund the acquisition of TIS. Included in the amendment was the syndication of a portion of the facility to another lender. The amended facilities are made up as follows:

- a bullet revolving term cash advance facility of $39.400 million;
- a multi-option working capital facility of $52.500 million; and
- a $100.000 million bullet term facility.

The amended facilities are valid for a term of two years.

On 16 November 2016, $72.841 million was drawn down from the amended loan facilities to partially fund the acquisition of TIS. Further details on the borrowings are disclosed in Note 4 to the consolidated financial statements.

**New underwriting agreement**

On 9 December 2016, Cover-More Group Limited signed an Insurance Services Agreement (ISA) with the Australasian branch of global insurer, Berkshire Hathaway Specialty Insurance Company (BHSI). BHSI provides commercial property, casualty, healthcare professional liability, executive and professional lines, surety, travel, programs and homeowners insurance worldwide. It is part of the global insurance operations of the Berkshire Hathaway Group of Insurance Companies.

Key terms of the new underwriting agreement in Australia and New Zealand include the following:

- commercial terms are similar to the existing commercial terms with Munich Re's Great Lakes Australia however with greater certainty of underwriting premium;
- the Group does not share in downside risk for losses worse than an agreed target loss ratio;
- the new agreement runs for a five-year term and includes a change of control clause; and
- the new agreement enables the Group to terminate the current underwriting agreement with Great Lakes Australia.

**Scheme implementation agreement with Zurich Insurance Company Ltd**

On 12 December 2016, the Board of Cover-More Group Limited announced that it had entered into a Scheme Implementation Agreement (SIA). Under the SIA, it is proposed that Zurich Travel Solutions Pty Limited, a wholly-owned subsidiary of Zurich Insurance Company Ltd, will acquire all of the ordinary shares in Cover-More Group Limited by way of a Scheme of Arrangement ("Scheme").

Under the terms of the Scheme, Cover-More Group Limited shareholders will be entitled to receive $1.95 cash per share ("Scheme Consideration"), subject to all applicable conditions being satisfied or waived and the Scheme being implemented. In connection with the Scheme, the Cover-More Board has also determined that it intends to declare a fully-franked special dividend of $0.05 per share if the Scheme proceeds. It remains at the discretion of the Cover-More Board whether the dividend is ultimately paid.

Under the SIA, Cover-More is permitted to declare and pay an interim and/or special dividend of up to $0.05 per share on or prior to implementation of the Scheme, with the Scheme consideration of $1.95 per share being reduced by the cash amount of any such dividend. Therefore, if the Scheme proceeds and the special dividend is declared, Cover-More shareholders will receive scheme consideration of $1.90 cash per share (being $1.95 cash per share less the special dividend of $0.05 per share). If the Scheme proceeds but the special dividend is not declared, Cover-More shareholders will receive Scheme consideration of $1.95 per share.

Cover-More Group Limited shareholders will be given the opportunity to vote on the Scheme at a Scheme meeting expected to be held in late March or early April 2017. Subject to the conditions of the Scheme being satisfied, the Scheme is expected to be implemented in mid or late April 2017. These dates are indicative and are subject to change.

There were no other significant changes in the state of affairs of the Group during the half-year ended 31 December 2016.

## Events occurring after the reporting period

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

## Rounding of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## 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 the following page.

## Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors

| | |
|---|---|
| ---------------------------------------------- | --------------------------------------------- |
| Mike Emmett | Louis Carroll |
| Director | Director |
| 13 February 2017 | 13 February 2017 |
| Sydney | Sydney |

## Auditor's Independence Declaration

As lead auditor for the review of Cover-More Group Limited for the half-year ended 31 December 2016, 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 Cover-More Group Limited and the entities it controlled during the period.

SK Fergusson
Partner
PricewaterhouseCoopers

Sydney
13 February 2017

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# Interim financial report

**Consolidated financial statements**



**Notes to the consolidated financial statements**



*The interim financial report includes the consolidated financial statements for Cover-More Group Limited (the ultimate parent entity or the company) and its controlled entities (Cover-More or the Group). The interim financial report is presented in Australian dollars, which is Cover-More Group Limited's functional and presentation currency.*

*The interim financial report consists of the financial statements, notes to the financial statements and the directors' declaration.*

*Cover-More Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:*

*Level 2, 60 Miller Street*

*North Sydney, NSW, 2060, Australia*

*A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the interim financial report.*

*The interim financial report was authorised for issue, in accordance with a resolution of directors, on 13 February 2017. The directors have the power to amend and reissue the financial report.*

# Consolidated Income Statement

**For the half-year ended 31 December 2016**

| | Notes | Half-year ended 31 December 2016 $'000 | Half-year ended 31 December 2015 $'000 |
|---|---|---|---|
| **Revenue** | | **110,453** | 103,084 |
| Cost of sales | | **65,876** | 63,259 |
| **Gross profit** | | **44,577** | 39,825 |
| **Other income** | | **2,878** | 1,848 |
| **Other expenses from ordinary activities** | | | |
| Occupancy | | **4,819** | 5,447 |
| Advertising and promotion | | **2,009** | 2,179 |
| Administration | | **22,706** | 20,671 |
| Other | | **118** | 181 |
| | | **17,803** | 13,195 |
| Acquisition-related costs | 8(a)(iii) | **1,168** | - |
| Scheme of arrangement-related costs | | **740** | - |
| Finance costs | | **2,521** | 1,631 |
| **Profit before income tax** | | **13,374** | 11,564 |
| Income tax expense | | **4,776** | 3,410 |
| **Profit for the half-year** | | **8,598** | 8,154 |
| | | | |
| Profit is attributable to: | | | |
| Owners of Cover-More Group Limited | | **8,598** | 8,154 |
| | | | |
| **Earnings per share for profit attributable to the ordinary equity holders of the Company:** | | | |
| Basic earnings per share | 9 | **2.5** | 2.5 |
| Diluted earnings per share | 9 | **2.5** | 2.5 |

*The above statement should be read in conjunction with the accompanying notes.*

# Consolidated Statement of Comprehensive Income

## For the half-year ended 31 December 2016

| | **Half-year ended 31 December 2016 $'000** | Half-year ended 31 December 2015 $'000 |
|---|---|---|
| **Profit for the half-year** | **8,598** | 8,154 |
| | | |
| **Other comprehensive income** | | |
| *Items that may be reclassified to the income statement* | | |
| Changes in the fair value of cash flow hedges | **101** | 92 |
| Exchange differences on translation of foreign operations | **7,708** | 514 |
| Income tax relating to these items | **(30)** | (28) |
| **Other comprehensive income for the half-year, net of tax** | **7,779** | 578 |
| | | |
| **Total comprehensive income for the half-year** | **16,377** | 8,732 |
| | | |
| Total comprehensive income for the half-year is attributable to: | | |
| Owners of Cover-More Group Limited | **16,377** | 8,732 |

*The above statement should be read in conjunction with the accompanying notes.*

# Consolidated Balance Sheet

## As at 31 December 2016

| | Notes | 31 December 2016 $'000 | 30 June 2016 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **38,720** | 23,980 |
| Trade and other receivables | | **38,143** | 39,868 |
| Current tax receivable | | **331** | - |
| Total current assets | | **77,194** | 63,848 |
| | | | |
| **Non-current assets** | | | |
| Receivables | | **12,747** | 1,930 |
| Plant and equipment | | **4,261** | 4,090 |
| Intangible assets | 3 | **394,695** | 243,629 |
| Deferred tax assets | | **1,143** | 608 |
| Total non-current assets | | **412,846** | 250,257 |
| | | | |
| **Total assets** | | **490,040** | 314,105 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **53,397** | 37,569 |
| Deferred liabilities | | **91** | 195 |
| Borrowings | 4 | **7,512** | 11 |
| Current tax provisions | | **812** | 1,322 |
| Provisions | | **6,016** | 5,122 |
| Total current liabilities | | **67,828** | 44,219 |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | 4 | **135,554** | 63,837 |
| Provisions | | **2,240** | 1,277 |
| Deferred tax liabilities | | **5,977** | 5,903 |
| Derivative financial instruments | | **130** | 231 |
| Total non-current liabilities | | **143,901** | 71,248 |
| | | | |
| **Total liabilities** | | **211,729** | 115,467 |
| | | | |
| **Net assets** | | **278,311** | 198,638 |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 5 | **291,136** | 220,067 |
| Other reserves | | **13,492** | 5,230 |
| Retained earnings | | **(26,317)** | (26,659) |
| **Total equity** | | **278,311** | 198,638 |

*The above statement should be read in conjunction with the accompanying notes.*

# Consolidated Statement of Changes in Equity

## For the half-year ended 31 December 2016

| | Notes | Contributed equity $'000 | Other reserves $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2015** | | 220,067 | 6,887 | (25,652) | 201,302 |
| Profit for the half-year | | - | - | 8,154 | 8,154 |
| Other comprehensive income | | - | 578 | - | 578 |
| Total comprehensive income for the half-year | | - | 578 | 8,154 | 8,732 |
| Transactions with owners in their capacity as owners: | | | | | |
| Dividends provided for or paid | 6 | - | - | (13,018) | (13,018) |
| Share-based payment reserve | | - | (487) | - | (487) |
| | | - | (487) | (13,018) | (13,505) |
| **Balance at 31 December 2015** | | 220,067 | 6,978 | (30,516) | 196,529 |
| **Balance at 1 July 2016** | | **220,067** | **5,230** | **(26,659)** | **198,638** |
| Profit for the half-year | | **-** | **-** | **8,598** | **8,598** |
| Other comprehensive income | | **-** | **7,779** | **-** | **7,779** |
| **Total comprehensive income for the half-year** | | **-** | **7,779** | **8,598** | **16,377** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Contributions of equity, net of transaction costs | 5 | **71,069** | **-** | **-** | **71,069** |
| Dividends provided for or paid | 6 | **-** | **-** | **(8,256)** | **(8,256)** |
| Share-based payment reserve | | **-** | **483** | **-** | **483** |
| | | **71,069** | **483** | **(8,256)** | **63,296** |
| **Balance at 31 December 2016** | | **291,136** | **13,492** | **(26,317)** | **278,311** |

*The above statement should be read in conjunction with the accompanying notes.*

# Consolidated Statement of Cash Flows

## For the half-year ended 31 December 2016

| | Notes | Half-year ended 31 December 2016 $'000 | Half-year ended 31 December 2015 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | **117,712** | 107,192 |
| Payments to suppliers and employees (inclusive of GST) | | **(94,578)** | (90,232) |
| | | **23,134** | 16,960 |
| Transaction costs relating to acquisition of subsidiaries | | **(644)** | - |
| Other income | | **1,075** | 1,796 |
| Income taxes paid | | **(5,402)** | (7,977) |
| **Net cash inflow from operating activities** | | **18,163** | 10,779 |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for acquisition of subsidiaries, net of cash acquired | 8(b) | **(139,997)** | - |
| Payments for plant and equipment | | **(876)** | (947) |
| Payments for intangible assets | 3 | **(3,243)** | (3,593) |
| Proceeds from sale of plant and equipment | | **28** | 89 |
| Interest received | | **105** | 52 |
| **Net cash outflow from investing activities** | | **(143,983)** | (4,399) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares | | **73,341** | - |
| Proceeds from borrowings | | **94,865** | 13,103 |
| Share issue transaction costs | | **(2,259)** | - |
| Repayment of borrowings | | **(12,500)** | (5,000) |
| Finance lease payments | | **(5)** | (1) |
| Interest and other finance costs paid | | **(4,998)** | (1,624) |
| Dividends paid to Company's shareholders | | **(8,256)** | (13,018) |
| **Net cash inflow/(outflow) from financing activities** | | **140,188** | (6,540) |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **14,368** | (160) |
| Cash and cash equivalents at the beginning of the half-year | | **23,980** | 24,034 |
| Effects of exchange rate changes on cash and cash equivalents | | **372** | (48) |
| **Cash and cash equivalents at end of the half-year** | | **38,720** | 23,826 |

*The above statement should be read in conjunction with the accompanying notes.*

# Notes to the consolidated financial statements

## Note 1. Basis of preparation

This consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements arising under the Australian Stock Exchange Listing Rules and the *Corporations Act 2001.*

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

### (a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There will be some changes to the disclosures in the 30 June 2017 annual report as a consequence of these amendments.

### (b) Impact of standards issued but not yet applied by the Group

*(i) AASB 9 Financial instruments*

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The standard is not applicable until 1 January 2018 but is available for early adoption. The Group will apply the standard on 1 July 2018. The amendments required under AASB 9 are only expected to affect the presentation of the Group financial report and will not have a major direct impact on the measurement and recognition of amounts disclosed in the financial report.

*(ii) AASB 15 Revenue from contracts with customers*

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The standard is not applicable until 1 January 2018 and the Group will apply the standard on 1 July 2018. At this stage, the Group has not yet estimated the impact of the new standard on the Group's financial statements and will complete a detailed assessment over the next twelve months.

*(iii) AASB 16 Leases*
AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts.

The standard is not applicable until 1 January 2019 and the Group will apply the standard on 1 July 2019. Its impact is yet to be assessed by the Group.

## Note 2. Segment information

### (a) Operating segments

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker (CODM), being the Group Chief Executive Officer, in order to allocate resources to the segment and to assess its performance. The Group currently has two operating segments being travel insurance and medical assistance. The Group has determined that a disclosure of these segments is most appropriate due to the similar economic characteristics faced by the operating segments and the similar nature of the products and services being delivered to a similar customer base. Unallocated amounts represent balances in the holding entities which are not directly attributable to the operating segments.

*(i) Segment revenue*
Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the Group Chief Executive Officer is measured in a manner consistent with that in the statement of comprehensive income. Revenue from external customers is derived from the provision of travel insurance and medical assistance services. A breakdown of revenue and results is provided below.

*(ii) Segment EBITDA*

Segment performance is assessed on the basis of Segment EBITDA. Segment EBITDA comprises expenses which are incurred in the normal trading activity of the segments and excludes the impact of depreciation, amortisation, interest and other items which are determined to be outside of the control of the respective segments.

| | Travel Insurance $'000 | Medical Assistance $'000 | Intersegment eliminations/ unallocated $'000 | Total $'000 |
|---|---|---|---|---|
| **Half-year ended 31 December 2016** | | | | |
| **Revenue** | | | | |
| Revenue from external customers | **76,267** | **34,186** | **-** | **110,453** |
| **Total revenue** | **76,267** | **34,186** | **-** | **110,453** |
| | | | | |
| **Segment EBITDA** | **12,309** | **8,443** | **11** | **20,763** |
| Acquisition-related costs | **-** | **-** | **(1,168)** | **(1,168)** |
| Scheme of arrangement-related costs | **-** | **-** | **(740)** | **(740)** |
| Depreciation and amortisation expense | **(2,008)** | **(452)** | **(2,302)** | **(4,762)** |
| Interest income | **32** | **7** | **66** | **105** |
| Interest expense | **(59)** | **-** | **(2,462)** | **(2,521)** |
| Foreign exchange gain/(loss) | **(206)** | **85** | **1,818** | **1,697** |
| **Profit before income tax** | **10,068** | **8,083** | **(4,777)** | **13,374** |
| Income tax expense | **(3,367)** | **(2,517)** | **1,108** | **(4,776)** |
| **Profit after income tax** | **6,701** | **5,566** | **(3,669)** | **8,598** |
| | | | | |
| **Half-year ended 31 December 2015** | | | | |
| **Revenue** | | | | |
| Revenue from external customers | 70,613 | 32,471 | - | 103,084 |
| **Total revenue** | 70,613 | 32,471 | - | 103,084 |
| | | | | |
| **Segment EBITDA** | 12,344 | 8,081 | (24) | 20,401 |
| Depreciation and amortisation expense | (3,072) | (449) | (3,737) | (7,258) |
| Interest income | 29 | 15 | 8 | 52 |
| Interest expense | (13) | (28) | (1,590) | (1,631) |
| **Profit before income tax** | 9,288 | 7,619 | (5,343) | 11,564 |
| Income tax expense | (2,783) | (2,251) | 1,624 | (3,410) |
| **Profit after income tax** | 6,505 | 5,368 | (3,719) | 8,154 |

## (b) Geographical segments

The Group currently operates in Australia, New Zealand (NZ), United Kingdom (UK), United States of America (US), Singapore, Malaysia, China and India. The Group has determined that a disclosure of three aggregated segments, Australia/NZ/UK, North America and Asia are most appropriate due to the similar economic characteristics faced by the geographical segments and the similar nature of the products and services being delivered to a similar customer base. A separate geographic segment for North America is now presented due to the commencement of the travel insurance business in the USA in H2 FY2016 and the acquisition of TIS in H1 FY2017. Unallocated amounts represent balances in the holding entities which are not directly attributable to the geographical segments.

| | Australia/ NZ/UK $'000 | North America $'000 | Asia $'000 | Intersegment eliminations/ unallocated $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Half-year ended 31 December 2016** | | | | | |
| **Revenue** | | | | | |
| Revenue from external customers | **95,310** | **5,104** | **10,039** | **-** | **110,453** |
| **Total revenue** | **95,310** | **5,104** | **10,039** | **-** | **110,453** |
| | | | | | |
| **Half-year ended 31 December 2015** | | | | | |
| **Revenue** | | | | | |
| Revenue from external customers | 93,238 | - | 9,846 | - | 103,084 |
| Total revenue | 93,238 | - | 9,846 | - | 103,084 |

## (c) Understanding the segment results

*(i) Segment revenue*

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the income statement.

Revenues from external customers represent commission earned on the sale of travel insurance, ancillary income and providing medical assistance services.

*(ii) Segment balance sheet*

No segment balance sheet is prepared as the Chief Executive Officer reviews the Group's assets and liabilities in aggregate.

*(iii) Seasonality of operations*

The Group revenue and profit is historically weighted in favour of the second half of the financial year. The Cover-More Australian operations have consistently experienced higher revenue months in February and March each year, representing the typical promotional period for several of Cover‑More's travel insurance distribution partners in Australia, coinciding with the release of updated pricing and flight schedules by international airlines in respect of the Northern Hemisphere summer period. The Cover-More Travel Insurance business in India also typically earns higher revenues in the months from March to June which aligns with the Indian holiday season and the Northern Hemisphere holiday period. The Group's North American operations are expected to earn higher revenues in the second half of the financial year due to similar seasonal factors.

## Note 3. Intangible assets

| | Goodwill $'000 | Customer contracts and distributor relationships $'000 | Capitalised software $'000 | Brand and trade-marks $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 30 June 2016** | | | | | |
| Cost | 201,430 | 69,842 | 21,021 | 11,060 | 303,353 |
| Accumulated amortisation and impairment | - | (47,072) | (10,794) | (1,858) | (59,724) |
| Closing net book amount | 201,430 | 22,770 | 10,227 | 9,202 | 243,629 |
| | | | | | |
| **Half-year ended 31 December 2016** | | | | | |
| Opening net book amount | 201,430 | 22,770 | 10,227 | 9,202 | 243,629 |
| Additions – Internal development* | - | - | 3,243 | - | 3,243 |
| Acquired through business combinations – cost | 85,594 | 35,764 | 1,387 | 20,513 | 143,258 |
| Acquired through business combinations – accumulated amortisation | - | - | (1,050) | - | (1,050) |
| Exchange differences | 6,088 | 2,028 | 46 | 1,176 | 9,338 |
| Amortisation charge | - | (1,930) | (1,422) | (371) | (3,723) |
| Closing net book amount | 293,112 | 58,632 | 12,431 | 30,520 | 394,695 |
| | | | | | |
| **At 31 December 2016** | | | | | |
| Cost | 293,112 | 107,654 | 25,761 | 32,748 | 459,275 |
| Accumulated amortisation and impairment | - | (49,022) | (13,330) | (2,228) | (64,580) |
| **Closing net book amount** | 293,112 | 58,632 | 12,431 | 30,520 | 394,695 |

* Software includes capitalised development costs being internally generated intangible assets.

### Goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) according to operating segment and country of operation. A CGU level summary of the goodwill allocation is presented below. The increase in the Travel insurance – North America CGU and Employee assistance – Australia & New Zealand CGU are mainly due to acquisitions during the period (refer to Note 8). The carrying amount of the goodwill allocated to non-Australian CGUs also increased due to foreign currency exchange differences recognised during the half-year ended 31 December 2016.

| | **31 December 2016 $'000** | 30 June 2016 $'000 |
|---|---|---|
| **Travel insurance** | | |
| Australia & New Zealand | **83,989** | 83,989 |
| North America | **89,484** | - |
| India | **39,958** | 38,852 |
| **Medical assistance** | | |
| Medical assistance – Australia & New Zealand | **29,000** | 29,000 |
| Medical assistance - China | **3,817** | 3,692 |
| Employee assistance – Australia & New Zealand | **46,864** | 45,897 |
| **Total goodwill** | **293,112** | 201,430 |

## Note 4. Borrowings

| | 31 December 2016 | | | 30 June 2016 | | |
|---|---|---|---|---|---|---|
| | **Current** | **Non-current** | **Total** | Current | Non-current | Total |
| | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 |
| *Secured* | | | | | | |
| Bank loans* | **7,500** | **135,503** | **143,003** | - | 63,781 | 63,781 |
| Finance lease liabilities | **12** | **51** | **63** | 11 | 56 | 67 |
| **Total borrowings** | **7,512** | **135,554** | **143,066** | 11 | 63,837 | 63,848 |

*31 December 2016 bank loans include $146.434 million drawn down on banking facilities and are net of $3.431 million capitalised costs associated with the banking facility (30 June 2016: bank loans include $64.069 million drawn down on banking facilities and are net of $0.288 million capitalised costs associated with the banking facility).

### (a) Amended facilities agreement

On 14 October 2016, the Group amended its existing loan facilities held with Westpac Banking Corporation to increase the multi-option working capital facility from $32.500 million to $52.500 million. On 15 November 2016, the Group completed a further modification to the existing facilities to partially fund the acquisition of TIS. Included in the amendment was the syndication of a portion of the facility to another lender. The amended facilities are made up as follows:

- a bullet revolving term cash advance facility of $39.400 million;
- a multi-option working capital facility of $52.500 million; and
- a $100.000 million bullet term facility.

The amended facilities are valid for a term of two years.

On 16 November 2016, $72.841 million was drawn down from the bullet term facility to partially fund the acquisition of TIS.

### (b) Loan covenants

The Westpac guarantor group has been expanded to include all Group members except for those incorporated in the United Kingdom and China.

Under the terms of the amended loan facility agreement, the Group is required to comply with a number of financial covenants. These financial undertakings are tested quarterly on a rolling 12 month basis.

The Group has complied with these covenants throughout the reporting period.

## Note 5. Equity securities issued

| | Half-year ended 31 December 2016 Number | Half-year ended 31 December 2016 $'000 | Half-year ended 30 June 2016 Number | Half-year ended 30 June 2016 $'000 |
|---|---|---|---|---|
| **Issues of ordinary shares during the half-year** | | | | |
| Shares issued from entitlement offer | **61,117,104** | **71,069** | - | - |

Contributed equity increased by $71.069 million (net of transaction costs and tax) as a result of a 1 for 5.2 pro-rata non-renounceable entitlement offer at an offer price of $1.20 per share completed in October 2016 to partially fund the acquisition of TIS.

## Note 6. Dividends

| | Half-year ended 31 December 2016 $'000 | Half-year ended 31 December 2015 $'000 |
|---|---|---|
| Dividends provided for or paid during the half-year | **8,256** | 13,018 |

No interim dividend has been declared. Refer to the "Scheme implementation agreement with Zurich Insurance Company Ltd" section on page 12 for details of a special dividend.

## Note 7. Contingencies

The Westpac Banking Corporation holds financial guarantees amounting to $4.360 million (30 June 2016: $4.447 million).

No other contingent liabilities exist at 31 December 2016.

## Note 8. Business combination

### (a) Summary of acquisition

**Acquisition of Travelex Insurance Services Inc.**

On 16 November 2016, Cover-More Group Limited acquired 100% of the issued shares in Travelex Insurance Services Inc. through its wholly owned subsidiary, Cover-More Holdings USA Inc., for a provisional consideration of USD 109.543 million (AUD 143.957 million). The provisional consideration includes a purchase price of USD 105.000 million (AUD 137.987 million), a net working capital adjustment of USD 4.543 million (AUD 5.970 million) which was determined at the financial close of the acquisition, and a contingent consideration. The contingent consideration, which could not be quantified at the balance date due to significant uncertainty, could result in an adjustment to the purchase consideration of up to a maximum of USD 2.500 million. The acquisition is expected to provide accelerated entry into North America and a platform for further expansion for the Group.

The acquisition was funded through a pro-rata, accelerated non-renounceable entitlement offer (refer to Note 5) and a drawdown of the corporate bank debt facility (refer to Note 4).

**Acquisition of Stratos Limited**

On 31 August 2016, the Group acquired 100% of the issued shares in Stratos Limited ("Stratos"), a leading employee assistance provider in New Zealand, through its wholly owned subsidiary, DTC NZ Bidco Limited, for consideration of NZD 1.437 million (AUD 1.370 million). The consideration includes a contingent consideration of NZD 0.908 million (AUD 0.866 million). The acquisition expands the Group's employee assistance capability and reach in New Zealand.

*(i) Purchase consideration*

| | TIS $'000 | Stratos $'000 |
|---|---|---|
| Cash paid | 144,115 | 504 |
| Contingent consideration (iv) | - | 866 |
| Receivable from vendor | (158) | - |
| **Total purchase consideration** | 143,957 | 1,370 |

*(ii) Assets and liabilities recognised as a result of the acquisition*

| | TIS $'000 | Stratos $'000 |
|---|---|---|
| Cash and cash equivalents | 4,443 | 179 |
| Trade and other receivables | 554 | 283 |
| Property, plant and equipment | 212 | 33 |
| Deferred tax assets | 273 | - |
| Intangible assets – capitalised software | 335 | 2 |
| Intangible assets – customer contracts and distributors relationships | 35,764 | - |
| Intangible assets – brand and trademarks | 20,513 | - |
| Trade and other payables | (2,276) | (58) |
| Current tax provisions | (494) | (13) |
| Provisions | - | (17) |
| Net identifiable assets | 59,324 | 409 |
| Add: goodwill | 84,633 | 961 |
| **Net assets acquired** | 143,957 | 1,370 |

The Australian accounting standards allow twelve months from the acquisition date to finalise the fair value of the assets and liabilities acquired and the above values are provisional as at 31 December 2016.

The goodwill is attributable to growth expectations, expected future profitability, and expected cost synergies of the acquired businesses. Goodwill from the acquisition of TIS has been allocated to the Travel Insurance – North America CGU and is expected to be deductible for tax purposes in the USA. Goodwill from the acquisition of Stratos has been allocated to the Employee assistance – Australia & New Zealand CGU and is not expected to be deductible for tax purposes.

The Travelex Insurance Services brand with a carrying amount of USD 15.609 million has been assigned an indefinite useful life and is therefore not subject to routine amortisation. This brand has a long history and a material share of the USA travel insurance market. These factors, together with the scale of the business, contribute to the brand's durability. The Group intends to use the Travelex Insurance Services brand indefinitely.

*(iii) Acquisition-related costs*

Acquisition-related costs of $1.168 million are included in acquisition-related costs in the income statement.

*(iv) Contingent consideration*

The contingent consideration arrangement requires the Group to pay the former owners of Stratos Limited a percentage of Stratos' profit before tax for the period from 31 August 2016 to 30 June 2019 payable on 1 August immediately following the end of the relevant financial year.

The contingent consideration of $0.866 million is calculated based on the assumed profit before tax of Stratos of NZD 0.300 million to NZD 0.980 million.

*(v) Acquired receivables*

The fair value of trade and other receivables on the TIS acquisition is $0.554 million and includes trade receivables with a fair value of $0.394 million. The gross contractual amount for trade receivables due is $0.552 million of which $0.158 million is expected to be uncollectible.

The fair value of trade and other receivables on the Stratos acquisition is $0.283 million and includes trade receivables with a fair value of $0.275 million. The gross contractual amount for trade receivables due is $0.275 million of which none is expected to be uncollectible.

*(vi) Revenue and profit contribution*

TIS contributed revenues of $2.940 million and net profit of $1.034 million to the Group for the period from 16 November 2016 to 31 December 2016. Stratos contributed revenues of $0.806 million and net profit of $0.077 million to the Group for the period from 31 August 2016 to 31 December 2016.

If the acquisitions occurred on 1 July 2016, consolidated revenue and adjusted EBITDA for the half-year ended 31 December 2016 would have been $119.296 million and $23.856 million respectively.

### (b) Purchase consideration – cash outflow

| | TIS<br>$'000 | Stratos<br>$'000 | Total<br>$'000 |
|---|---|---|---|
| Outflow of cash to acquire subsidiary, net of cash acquired | | | |
| Cash consideration | 144,115 | 504 | 144,619 |
| Less: Balances acquired | | | |
| Cash | (4,443) | (179) | (4,622) |
| **Net outflow of cash – investing activities** | 139,672 | 325 | 139,997 |

## Note 9. Earnings per share

| | Half-year ended 31 December 2016 Cents | Half-year ended 31 December 2015 Cents |
|---|---|---|
| **(a) Basic earnings per share** | | |
| Basic earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company* | **2.5** | 2.5 |
| **(b) Diluted earnings per share** | | |
| Diluted earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company* | **2.5** | 2.5 |

| | $'000 | $'000 |
|---|---|---|
| **(c) Basic earnings per share** | | |
| Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share | **8,598** | 8,154 |
| **(d) Diluted earnings per share** | | |
| Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share | **8,598** | 8,154 |
| Add: Share-based payment expense on employee LTI plan | **-** | - |
| Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share | **8,598** | 8,154 |

| | Number | Number |
|---|---|---|
| **(e) Weighted average number of shares used as the denominator** | | |
| Weighted average number of shares used as the denominator used in calculating basic earnings per share* | **348,678,820** | 326,270,913 |
| Adjustments for calculation of diluted earnings per share: Shares issued on historical employee LTI plan | **-** | - |
| Weighted average number of shares and potential shares used as the denominator used in calculating diluted earnings per share* | **348,678,820** | 326,270,913 |

*As required by the Australian accounting standards, the weighted average number of shares for the half-year ended 31 December 2015 has been adjusted retrospectively from 317,500,000 shares to 326,270,913 shares as a result of a 1 for 5.2 pro-rata non-renounceable entitlement offer at an offer price of $1.20 per share completed in October 2016 to partially fund the acquisition of TIS. Accordingly, the corresponding basic and diluted earnings per share have been adjusted from 2.6 cents to 2.5 cents.

## Note 10. Events occurring after the reporting period

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financials year; or
(b) the results of those operations in future financial years; or
(c) the Group's state of affairs in future financial years.

# Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 15 to 30 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 Group's financial position as at 31 December 2016 and of its performance for the half-year 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.

Mike Emmett
Director

13 February 2017
Sydney

Louis Carroll
Director

13 February 2017
Sydney

# Independent auditor's review report to the members of Cover-More Group Limited

## *Report on the Half-Year Financial Report*

We have reviewed the accompanying half-year financial report of Cover-More Group Limited (the company), which comprises the consolidated balance sheet as at 31 December 2016, 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 Cover-More Group Limited (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 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 half-year 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 2016 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 Cover-More Group 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*.

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

*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 Cover-More Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

SK Fergusson<br>Partner

Sydney<br>13 February 2017

# Corporate directory

## Directors
Louis Carroll (Chairman)
William Easton
Mike Emmett
Stephen Loosley
Trevor Matthews
Lisa McIntyre
Sam Mostyn

## Company secretary
Mark Steinberg

## Registered office
Cover-More Group Limited
Level 2, 60 Miller Street
North Sydney, NSW, 2060, Australia
Phone: (02) 8907 5301

## Principal place of business
Cover-More Group Limited
Level 2, 60 Miller Street
North Sydney, NSW, 2060, Australia

## Share register
Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW, 2000, Australia
Phone: 1300 554 474

## Auditor
PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney, NSW, 2000, Australia

## Banker
Westpac Banking Corporation
Level 3, 275 Kent Street
Sydney, NSW, 2000, Australia

## Stock exchange listing
Cover-More Group Limited shares are listed on the Australian Securities Exchange
(ASX code: CVO)

## Website:
www.covermore.com/group