InvoCare Limited
ABN 42 096 437 393

Appendix 4E – Preliminary Final Report
For the Year Ended 31 December 2013

Lodged with Australian Securities Exchange under Listing Rule 4.3A

Table of Contents

Contents

InvoCare Limited

Appendix 4E

ABN 42 096 437 393

Results for announcement to the market

	Compared to actual for previous year ended 31 December 2012	Year Ended 31 December 2013 $'000
Total sales revenue	Up 4.5%	385,352
Total revenue from ordinary activities	Up 4.4%	392,186
Profit from ordinary activities after tax attributable to members	Up 9.9%	48,869
Net profit attributable to members	Up 9.9%	48,869
Operating earnings after tax (see note 1)	Flat 0.0%	42,498

Dividends	**Amount per security**	**Franked Amount per security**
Interim dividend per ordinary share in respect of 31 December 2013 financial year **paid** on 4 October 2013	15.0 cents	15.0 cents
Final dividend per ordinary share in respect of 31 December 2013 financial year	19.5 cents	19.5 cents
The **record date** for determining entitlements to the final dividend and for DRP election is:		**14 March 2014**
The final dividend is **payable** on:		**4 April 2014**

Note 1: This is non-IFRS financial information and is reconciled to statutory profit on page 2.

Dividends

The total interim and final fully franked ordinary dividends in respect of the financial year ending 31 December 2013 amounts to 34.5 cents per share, which is an increase of 1.5% from the ordinary dividends paid for the 2012 financial year.

Dividend Reinvestment Plan in Operation

The Company's Dividend Reinvestment Plan ("DRP") will apply to the above final dividend. Eligible shareholders may elect to reinvest some or all their dividend in ordinary shares of the Company.

In the operation of the DRP, InvoCare may, in its discretion, either issue new shares or cause existing shares to be acquired in the market for transfer to shareholders, or a combination of both options. For the 2013 final dividend, it is intended that the required shares will be purchased on market. Any shortfall in DRP take-up will not be underwritten nor will shares be issued with a discount to the market price. The market price will be calculated as the weighted average market price of trading in shares in the Company during the first ten (10) trading days after (but not including) the record date, 14 March 2014. The ex-dividend date to be entitled to the final dividend is 7 March 2014.

In order to participate in the DRP, the Company's share registry must receive the election notice by the record date.

Brief Explanation

Refer to the section headed "Commentary on the Results" for an explanation of the results.

Attention is also drawn to the audited Financial Report, Investor Presentation and Media Release material released to the market with this Appendix 4E Preliminary Final Report.

InvoCare Limited

Appendix 4E

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Results for announcement to the market

Result Highlights

	2013	2012	Change	
	$'m	$'m	$'m	%
Total sales to external customers	**385.4**	368.7	16.7	4.5%
Other revenue	6.8	6.9	(0.0)	(0.3%)
Operating expenses (i)	(297.1)	(282.5)	(14.6)	5.2%
Operating EBITDA (i)	**95.1**	93.0	2.0	2.2%
Operating Margin	*24.7%*	*25.2%*		*(0.6%)*
Depreciation and amortisation	(17.8)	(16.4)	(1.4)	8.6%
Finance costs	(16.8)	(16.3)	(0.6)	3.4%
Interest income	0.7	0.8	(0.1)	(15.6%)
Business acquisition costs	(0.5)	(0.7)	0.2	26.5%
Share of loss from associates	(0.3)	-	(0.3)	-
Operating earnings before tax (i)	**60.3**	60.5	(0.2)	(0.2%)
Income tax on above operating earnings (i)	(17.8)	(18.0)	0.2	(0.9%)
Effective tax rate	*29.5%*	*29.7%*		*(0.2%)*
Operating earnings after tax (i)	**42.5**	42.5	19	0.0%
Operating earnings per share (i)	*38.9 cents*	*38.8 cents*	*0.1 cents*	*0.4%*
Net gain or (loss) on undelivered prepaid contracts after tax (i)	1.1	(0.0)	1.1	
Asset sale gains after tax (i)	3.2	2.1	1.0	
Reversal of impairment loss	2.2	-	2.2	
Non-controlling interest	(0.1)	(0.1)	(0.0)	
Net profit after tax attributable to InvoCare shareholders	**48.9**	44.5	4.4	9.9%
Basic earnings per share	*44.7 cents*	*40.6 cents*	*4.1 cents*	*10.1%*
Dividends				
Interim ordinary dividend per share	15.0 cents	15.0 cents	0.0 cents	0.0%
Final ordinary dividend per share	19.5 cents	19.0 cents	0.5 cents	2.6%
Total ordinary dividend per share	34.5 cents	34.0 cents	0.5 cents	1.5%

(i) Non-IFRS financial information

Company profile

InvoCare owns and operates funeral homes, cemeteries and crematoria in Australia, New Zealand and Singapore. It is well known for its commitment to family care, community engagement and investor value.

Business model

InvoCare's business model is based upon earnings growth from the following pillars:

- Annual sales revenue growth from:
  - Ageing population trends with an approximate 1% annual increase in deaths
  - Consistent annual 3-4% pricing increments
  - Market share improvements, including new funeral locations, generating 1% revenue growth
- Prepaid contracts providing families emotional and financial peace of mind as well as securing future market share for InvoCare
- Business acquisitions, which have contributed more than half of InvoCare's compound annual sales growth since listing
- Operating leverage improvement, through delivery of revenue growth pillars and cost control so that annual EBITDA growth is greater than annual sales growth

Not all the pillars contributed positively to 2013 results as depicted in the following table. More detail is provided throughout this report.

Favourable Demographics	✗
Pricing / average contract values	✓
Market share improvements	✗
Prepaid contracts	✓
New locations	✓
Business acquisitions	✓
Operating leverage	✗

Financial Overview

InvoCare's reported profit after tax was up by 9.9% or $4.4 million to $48.9 million (2012: $44.5 million). Disappointingly operating earnings after tax[1] were flat year on year at $42.5 million (2012: $42.5 million).

Operating earnings were adversely impacted by declines in the number of funeral, burial and cremation cases.

Numbers of deaths are estimated to have declined by an overall 0.8% in InvoCare's comparable markets, negatively impacting operating earnings after tax by an estimated $1.6 million.

Market share erosion in comparable operations is estimated to have reduced funeral cases by 2.1% and cremation and burial service volumes by 0.6%, and negatively impacted operating earnings after tax by an estimated $2.8 million.

There is no one single cause of the market share losses with many factors in play. These include more aggressive competitor pricing in a market where there has been a declining number of deaths and new competitors entering the market. In some cases, the new competitors are operational staff who have left our own or other existing competitors' employment. Additionally, tight management of marketing and personnel costs may have contributed, but in the longer term these cost constraints are not sustainable.

The unexpected volume impacts were mitigated by a combination of:

- favourable average sales revenue per case, estimated to have contributed $13.6 million to operating earnings after tax in the year;
- rigorous cost management, particularly during the second half;
- foreign currency gains from New Zealand and Singapore operations due to a weakening Australian dollar; and
- results from recently acquired businesses.

EBITDA to sales margin, whilst down to 24.7% from last year's 25.2%, was assisted by a strong second half at 26.7%, up on 26.0% for the second half of 2012 and well up on 22.5% in the first half (2012 first half: 24.4%).

Consequently, second half operating earnings after tax of $25.3 million were up $1.8 million against 2012, offsetting the first half decline of $1.7 million.

Statutory reported profit benefited from $3.2 million after tax asset sale gains (2012: $2.1 million), net impairment reversals of $2.2 million after tax (2012: $Nil), following the reassessment of the carrying values of a number of property assets, and an improvement in undelivered prepaid contracts to a net gain of $1.1 million after tax (2012: $Nil).

Cash flows remained strong for the year. Ungeared, tax free operating cash flow was 110% of EBITDA (2012: 95%), underpinning the ability to pay a final franked interim dividend of 19.5 cents per share, which is 0.5 cents up on last year. This is in addition to the 15.0 cent interim dividend paid in October, taking total dividends declared for the year to 34.5 cents (2012: 34.0 cents).

[1] Operating earnings after tax and operating earnings per share are non-IFRS financial information.

Sales, EBITDA, margins and major profit & loss line items

The following table summarises sales revenue, EBITDA and margins by country segments.

	1H13 $'m	1H12 $'m	Var %	2H13 $'m	2H12 $'m	Var %	FY13 $'m	FY12 $'m	Var %
Sales Revenue									
Australia	**158.3**	155.2	2.0%	**172.7**	172.2	0.3%	**331.0**	327.5	1.1%
New Zealand	**14.8**	14.2	4.2%	**17.2**	16.0	7.9%	**32.0**	30.2	6.1%
Singapore	**6.5**	5.4	21.8%	**6.4**	5.3	22.6%	**13.0**	10.6	22.2%
Comparable businesses	**179.6**	174.8	2.7%	**196.4**	193.4	1.5%	**376.0**	368.2	2.1%
Acquisitions	**4.0**			**5.4**	0.4		**9.4**	0.4	
Total InvoCare	**183.6**	174.8	5.0%	**201.7**	193.8	4.1%	**385.4**	368.7	4.5%
EBITDA									
Australia	**35.3**	36.9	-4.4%	**45.5**	44.5	2.2%	**80.7**	81.4	-0.8%
New Zealand	**2.2**	3.0	-25.0%	**3.9**	3.2	23.0%	**6.2**	6.2	-0.1%
Singapore	**3.1**	2.8	11.3%	**3.1**	2.7	17.7%	**6.2**	5.4	14.5%
Comparable businesses	**40.6**	42.6	-4.8%	**52.5**	50.3	4.3%	**93.1**	93.0	0.2%
Acquisitions	**0.7**			**1.2**	0.1		**1.9**	0.1	
Total	**41.3**	42.6	-3.1%	**53.8**	50.4	6.7%	**95.1**	93.0	2.2%
Margin on sales									
Australia	**22.3%**	23.8%	-1.5%	**26.3%**	25.8%	0.5%	**24.4%**	24.8%	-0.5%
New Zealand	**15.0%**	20.9%	-5.8%	**22.8%**	20.0%	2.8%	**19.2%**	20.4%	-1.2%
Singapore	**47.4%**	51.9%	-4.5%	**48.6%**	50.6%	-2.0%	**48.0%**	51.2%	-3.2%
Comparable businesses	**22.6%**	24.4%	-1.8%	**26.8%**	26.0%	0.7%	**24.8%**	25.2%	-0.5%
Acquisitions	**17.4%**			**23.2%**	13.3%	10.0%	**20.7%**	13.3%	7.5%
Total	**22.5%**	24.4%	-1.9%	**26.7%**	26.0%	0.7%	**24.7%**	25.2%	-0.6%

The following table shows the EBITDA performance of the business by halves, discussed in the following sections of the report.

	1H13 $'m	1H12 $'m	Var %	2H13 $'m	2H12 $'m	Var %	FY13 $'m	FY12 $'m	Var %
Total - all lines of business									
Sales revenue	**183.6**	**174.8**	***5.0%***	**201.7**	**193.8**	***4.1%***	**385.4**	**368.7**	***4.5%***
Other revenue	3.4	3.4	*2.8%*	3.4	3.5	*-3.2%*	6.8	6.9	*-0.3%*
Expenses:									
Cost of good sold	(53.9)	(50.4)	*-6.9%*	(59.3)	(56.9)	*-4.3%*	(113.2)	(107.3)	*-5.5%*
Personnel	(60.0)	(54.0)	*-11.1%*	(59.5)	(57.2)	*-4.0%*	(119.4)	(111.1)	*-7.5%*
Advertising & Promotions	(6.8)	(6.3)	*-7.4%*	(6.4)	(6.4)	*-1.2%*	(13.2)	(12.7)	*-4.3%*
Occupancy & Facility	(12.7)	(12.0)	*-5.7%*	(13.3)	(13.2)	*-1.2%*	(26.0)	(25.2)	*-3.4%*
Motor Vehicles	(4.0)	(3.8)	*-4.5%*	(4.3)	(4.2)	*-2.2%*	(8.3)	(8.0)	*-3.3%*
Other	(8.4)	(9.0)	*6.6%*	(8.5)	(9.1)	*7.2%*	(16.8)	(18.1)	*6.9%*
Operating Expenses	(145.8)	(135.5)	*-7.6%*	(151.3)	(146.9)	*-3.0%*	(297.1)	(282.5)	*-5.2%*
Operating EBITDA	**41.3**	**42.6**	***-3.1%***	**53.8**	**50.4**	***6.7%***	**95.1**	**93.0**	***2.2%***
Operating Margin %	*22.5%*	*24.4%*		*26.7%*	*26.0%*		*24.7%*	*25.2%*	

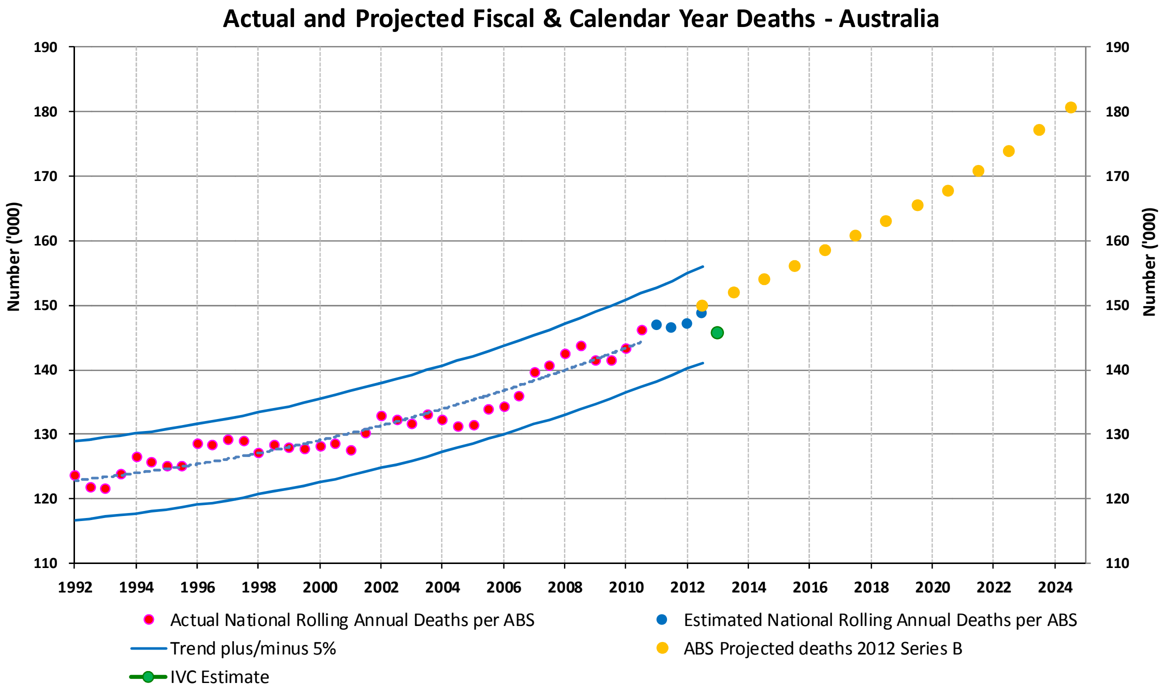
Note: that the data in the tables above has been calculated in thousands and presented in millions and as a consequence some additions cannot be computed from the tables as presented.

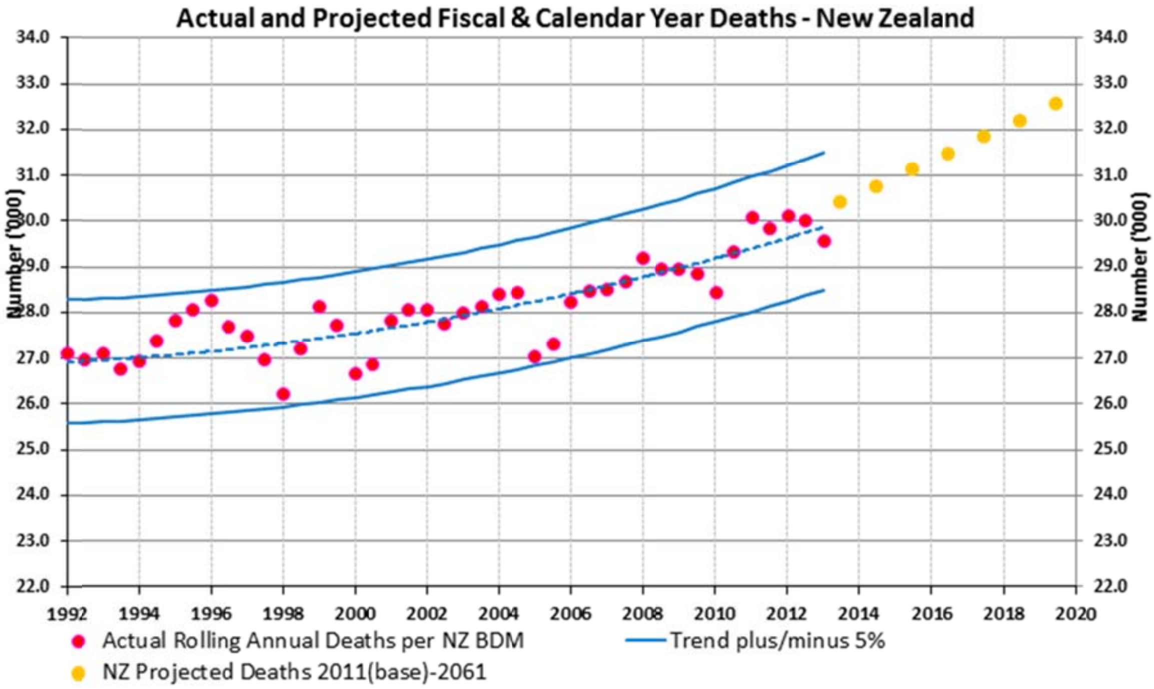
Number of deaths.

As indicated in the past, the number of deaths is a very significant driver of InvoCare's performance. The ageing of the population in InvoCare's markets and the long term trend of increasing numbers of deaths are major pillars of growth for the Group. However, short term fluctuations in the numbers of deaths do occur such that in any year the number can be up to 4% above or below the trend line, as shown in the following graphs for both Australia and New Zealand.

The Australian graph incorporates the most recent long term death projections released in November 2013 by the Australian Bureau of Statistics.

Projections for New Zealand have been sourced from the latest data supplied by Statistics New Zealand and have a similar profile to that expected in Australia over the next ten years.





Across the Group, funeral case volumes in comparable businesses declined by 3.0% against the prior year. The sudden and unexpected magnitude of the drop in case volumes experienced in the first half is depicted in the table below. At the end of April the comparable funeral case volume was up 1.3% on the prior corresponding period ("PCP"), but over the months of May and June the volume was 4.2% below 2012 resulting in an overall decline in the first half of 0.7%. This trend continued into the second half with the comparable business case volumes down a further 5.1% against the prior year's half, resulting in the full year decline of 3.0%.

Funeral Case Volume Analysis					
	Apr YTD % change	May & June % change	Half 1 Change	Half 2 Change	Full Year Change
Australia	1.1%	-2.7%	-0.3%	-5.1%	-2.8%
New Zealand	4.2%	-14.4%	-2.7%	-7.4%	-5.2%
Australia & New Zealand	1.4%	-4.1%	-0.6%	-5.4%	-3.1%
Singapore	-2.0%	-4.7%	-2.9%	2.6%	-0.3%
Total comparable business	1.3%	-4.2%	-0.7%	-5.1%	-3.0%
Total Group (including acquisitions)	4.0%	-1.5%	2.0%	-2.0%	-0.1%

InvoCare's market assessment indicates the number of deaths in InvoCare's Australian markets dropped by 1.0% during 2013, with the first half up 0.5% before a significant 2.3% decline in the second half. Commentary on market share impacts is set out later in this report.

InvoCare estimates the number of deaths in its New Zealand markets declined by approximately 1.9% during 2013. Market share erosion has also been a contributor to case volume declines and further commentary is set out later in the report.

The Singapore market experienced a 5.0% growth in the number of deaths in the first half. However this swung around in the second half to be 1.4% down on the prior year's second half. Consequently, for the year the number of deaths was up an estimated 1.8%. Despite the second half decline, InvoCare's Singapore operation was able to grow its volumes and recover some market share lost in the first half.

InvoCare's Australian cemeteries and crematoria operating in New South Wales and Queensland experienced a 2.1% decline in cremation and burial service volumes. The number of deaths in those markets is estimated to have declined by 1.5% for the year, with a 1% reduction in the first half and 2.0% in the second.

The reasons for the declines in death numbers across InvoCare's markets, particularly in the second half, are unknown. As communicated at the half year end, possible contributing factors may be that both Australia and New Zealand experienced very mild winters and neither country saw the onset of usual levels of winter influenza. Historically, the number of deaths generally peak during the winter months. The decline could also be cyclical with the market experiencing a period of below average growth. As discussed above the numbers of deaths do fluctuate such that in any year the number can be up to 4% above or below the long term trend line.

Commentary on the period since 31 December 2013 is set out in the Outlook section of this Appendix 4E.

Sales

Key components of the comparable sales movements are summarised below:

- Comparable Australian funeral sales increased 0.7% or $1.8 million to $264.2 million (2012: $262.5 million).
    - Average revenue per funeral case, excluding disbursements, increased 5.1% and contributed an estimated $9.2 million to sales growth. This increase is attributable to both price and mix. Prices are increased in December each year, but in some markets additional price increases were applied during the second half to help cover increased costs. There were also brand and state mix shifts which assisted the overall case averages.
    - The number of funeral services performed was down on the previous year by 2.8% causing approximately $5.1 million reduction in sales revenue, excluding disbursements. The case volume decline in the second half was far more significant than during the first half.
    - The reduction in the number of deaths in InvoCare's Australian markets, outlined earlier, is estimated to have contributed $1.6 million of the volume related drop in sales (excluding disbursements).
    - Market share erosion, however, had a larger impact, estimated at $3.5 million (again excluding disbursements). The contributors to this disappointing outcome are believed to include more aggressive competitor pricing during a period of lower numbers of deaths and new competitors entering the market. In some cases, the new competitors are operational staff leaving our own or other existing competitors' employment. Additionally, tight management of marketing and personnel costs may have contributed, but in the longer term these cost constraints are not sustainable.
    - The number of new prepaid funeral contracts sold for comparable Australian business increased by 0.2% on the previous year and exceeded the number of prepaid services performed by 15.3% (2012: 15.2%). Prepaid funerals performed in the year were 13.8% (2012: 13.4%) of comparable at need funerals.
- Australian cemeteries and crematoria sales were up 2.3% or $1.7 million to $76.6 million (2012: $74.9 million). There were 2.1% lower cremation and burial case volumes during the year, related to a combination of lower numbers of deaths, impacting sales by an estimated $1.1 million, and a small overall market share decline, impacting sales by an estimated $0.5 million. List prices were raised by an average 4% in early January for service fees and in early March for memorial products. Approximately $4.6 million (2012: $5.1 million) was added to the deferred revenue pool and will be recognised as sales in a future period upon delivery of the memorials.
- Comparable New Zealand sales (in NZD) were down 2.3% or $0.9 million to $37.7 million (2012: $38.6 million). Average revenue per funeral increased by 4.1% following planned price increases but was offset by a decline in total funeral cases performed which were down 5.2%. Market share performance in New Zealand continues to remain mixed with some solid performance in Auckland and the South Island offset by challenges in parts of North Island with new competitors and increasingly price focused markets.
- Singapore funeral sales increased by 14.5% in local currency and 22.2% in Australian currency. Service volumes declined 0.3%, largely due to market share losses. However, more than offsetting the lower volumes was average revenue per case which was up 15.3% in local currency (23.2% in Australian currency). The increase in average revenue was attributed to a shift towards packaged funerals and the introduction of sales of funeral accessories which began in 2012.

- Intra-group elimination of cemeteries and crematoria sales to InvoCare owned funeral homes amounted to $10.0 million (2012: $9.9 million).

The Tuckers funeral business in Australia was acquired in December 2012 and contributed sales of $7.2 million during the year (2012: $0.4 million). In addition there were several business acquisitions made in New Zealand being Resthaven Funerals in February 2013, Tilton Opie & Pattinson Funeral Services in July 2013, Fraser Lawrence Memorials in August 2013 and H Morris Funerals in December 2013. Combined, the New Zealand acquisitions contributed NZ$2.5 million (AUD $ 2.2 million) to sales revenue. Accordingly, the 2013 sales of the consolidated InvoCare business include growth from these acquisitions with sales of $9.4 million.

Other revenue

Other revenue remained flat at $6.9 million. On a comparable basis, other revenue declined slightly by 2.4% to $6.7 million. Other revenue mainly comprises administration fees upon initial sale of prepaid funeral contracts and trailing commissions on prepaid funds.

Operating expenses and EBITDA

Operating EBITDA[2] increased by 2.2% or $2.1 million to $95.1 million (2012: $93.0 million). The margin on sales dropped 0.6% to 24.7%. On a comparable basis, Operating EBITDA increased by $0.2 million or 0.2% to $93.1 million (2012: $93.0 million) with margins dropping 0.5% to 24.8%.

Favourable FX movements benefitted Operating EBITDA by $1.0m, as the NZD and SGD strengthened against the AUD, particularly in the second half.

Operating expenses (excluding depreciation, amortisation, acquisition related and finance costs) increased $14.6 million or 5.2% to $297.1 million. On a comparable basis excluding the impact of the acquisitions, the increase was 2.6% or $7.4 million.

Backing out foreign exchange movement impacts ($2.6 million) to reflect constant exchange rates, operating expenses increased by 4.2%.

A summary of the comparable business operating EBITDA by major income statement line item by halves is presented in the following table.

	1H13 $'m	1H12 $'m	Var %	2H13 $'m	2H12 $'m	Var %	FY13 $'m	FY12 $'m	Var %
Total - all lines of business									
Sales revenue	**179.6**	**174.8**	***2.7%***	**196.4**	**193.4**	***1.5%***	**376.0**	**368.2**	***2.1%***
Other revenue	3.3	3.4	*-0.8%*	3.4	3.5	*-4.0%*	6.7	6.9	*-2.4%*
Expenses:									
Cost of good sold	(52.6)	(50.4)	*-4.3%*	(57.4)	(56.7)	*-1.3%*	(110.0)	(107.1)	*-2.7%*
Personnel	(58.7)	(54.0)	*-8.8%*	(58.0)	(57.0)	*-1.6%*	(116.7)	(111.0)	*-5.1%*
Advertising & Promotions	(6.6)	(6.3)	*-4.9%*	(6.3)	(6.4)	*1.4%*	(12.9)	(12.7)	*-1.7%*
Occupancy & Facility	(12.4)	(12.0)	*-3.6%*	(13.0)	(13.1)	*1.4%*	(25.4)	(25.2)	*-1.0%*
Motor Vehicles	(3.9)	(3.8)	*-1.7%*	(4.2)	(4.2)	*-0.3%*	(8.1)	(8.0)	*-1.0%*
Other	(8.0)	(9.0)	*10.5%*	(8.3)	(9.1)	*8.3%*	(16.4)	(18.1)	*9.4%*
Operating Expenses	(142.3)	(135.5)	*-5.0%*	(147.2)	(146.6)	*-0.4%*	(289.5)	(282.1)	*-2.6%*
Operating EBITDA	**40.6**	**42.6**	***-4.8%***	**52.5**	**50.3**	***4.3%***	**93.1**	**93.0**	***0.2%***
Operating Margin %	*22.6%*	*24.4%*		*26.8%*	*26.0%*		*24.8%*	*25.2%*	

Cost of goods sold (excluding disbursements) increased as a % of gross sales from 12.0% in 2012 to 12.4% in 2013. Contributing to this increase was a marginal shift in the mix of sales away from service revenues towards products, deferral of a larger portion of high

[2] Operating EBITDA is non-IFRS financial information.

margin products and the commencement of the lower margin funeral accessories business in Singapore.

The ratio of personnel costs to sales revenue was 31.0% which was up from 30.1% in 2012. Base labour rates have generally been contained to 3.5% increases, consistent with the awards and enterprise agreements in place for the majority of the workforce.

As previously reported, headcount increases occurred during 2012, and to a lesser extent in the first half of 2013, to support InvoCare's expansion, to pursue marketing and digital business initiatives and in anticipation of expected increases in the number of deaths (eg. approximately 1.2% in Australia) and growth in market share. This investment in personnel is in response to the Company's new digital business and marketing initiatives, the payback for which will be in future years.

During the second half efforts were made to realign the workforce with the lower volume environment. This included critically assessing fixed and casual staffing levels and reviewing vacancies created by departing employees to determine if immediate replacement was critical to maintain customer service standards. As a consequence of these actions the ratio of labour costs to sales fell from the 32.7% in the first half to 29.5% in the second half.

Advertising and marketing expenditure increased by $0.5 million or 4.3% to $13.2 million (2012: $12.7 million). Whilst more had been planned, some curtailment of expenditure occurred given the case volume pressures. Overall weighting in activity shifted towards digital media and increases in radio, press and outdoor. Work was also completed on a new television commercial which first went to air in April 2013. Also included in this amount was $0.3 million expenditure targeted at the Tuckers and New Zealand acquisitions

In terms of digital business initiatives, work is continuing on various fronts. These include:

- enhancing electronic processing capabilities, for example at need and preneed funeral arrangements using tablet technology which is being rolled out across the funerals business,
- new websites, including MyGrief Assist providing information and resources dealing with grief and MyMemorial and FuneralOrganiser which assist families view funeral and memorial options and help generate sales leads,
- design and selection of improved audio visual capability for InvoCare's chapels,
- continued focus on obtaining greater leverage from the HeavenAddress on line memorial and tribute solution,
- promotion and support of InvoCare's social media channels, and
- planning and design of cloud based customer relationship management tools and front end applications.

Telecommunications and printing services savings resulting from a strategic sourcing review and contract renegotiations have helped fund the digital business initiatives. All other expenses have been contained and compare favourably to the prior year.

The comparable Australian operating EBITDA margin on sales declined to 24.3% against the 24.8% achieved in 2012. The lower margins reflected the impact of lower case volumes and the difficulty of adjusting the high fixed cost structure for sudden changes in volumes. After implementing cost, labour and pricing initiatives, second half margins improved from 22.3% in the first half to 26.2%.

New Zealand comparative EBITDA margins on sales in local currency also declined from 20.4% of sales in 2012 to 19.1% in 2013. The declining margins again reflected the impact of lower case volumes which were down 5.2% and the additional headcount added in the second half of 2012. Second half margins of 22.9% improved on the first half of 15.0% following the implementation of cost and labour savings initiatives.

Singapore margins declined from 51.3% to 47.9% of sales in local currency. The margin decline reflected the change in product mix following the commencement of the lower margin funeral accessories business in 2012.

Depreciation and amortisation expenses

Depreciation and amortisation expenses were up $1.4 million in 2013 to $17.8 million (2012: $16.4 million). This increase included $0.4 million associated with a full year of the acquired Tuckers business in Australia and other more recent New Zealand acquisitions. The remainder of the increase was associated with replacement motor vehicles (including hearses and the progressive replacement of the previously leased Bledisloe fleet), leasehold and owned property refurbishments and general operational plant and equipment purchases.

Finance costs

Finance costs increased by $0.5 million to $16.8 million (2012: $16.3 million). The increases relate primarily to the higher average levels of debt during 2013 with interest expense up $0.2 million and $0.3 million in unamortised loan establishment fees which were expensed upon refinancing of the long term debt facility in December 2013. More information about the Group's debt facilities (including the refinancing) is set out under the Capital Management section.

Acquisition related costs

Acquisition related costs of $0.5 million were down $0.2 million on the prior year (2012: $0.7m). These costs included expenses relating to the New Zealand acquisitions, as well as costs associated with the investigation and review of opportunities both closed or currently under investigation.

Share of associate

After contributing $5 million equity in January 2013, InvoCare has a 35% investment in HeavenAddress which provides on-line memorial solutions. The company is in the early stages of its development and InvoCare has recognised a $0.3 million share of the small loss in accordance with equity accounting standards.

Undelivered prepaid contract gains

Net gains on undelivered prepaid contracts were $1.6 million, an improvement of $1.6 million on the breakeven position achieved in 2012. The current year gain comprised $20.6 million increase in the fair value of funds under management offset by $19.0 million growth in the future liability to deliver prepaid services (see table (a) below).

The fair value uplift of $20.6 million in funds under management was $3.0 million and represented an effective earnings rate of 5.7% (2012: 5.5%).

During the year the preneed liability was increased to progressively recognise the impact of planned in year price increases. This resulted in liability growth of $19.0 million which was up on last year's $17.7 million. The higher growth in 2013 was the result of higher actual price increases in 2013 and size of the liability pool.

(a) Income statement impact of undelivered prepaid contracts

	2013 $'m	2012 $'m
Gain / (loss) on prepaid contract funds under management	**20.6**	17.6
Change in provision for prepaid contract liabilities	**(19.0)**	(17.7)
Net gain / (loss) on undelivered prepaid contracts	**1.6**	-

(b) Movements in prepaid contract funds under management

	2013 $'m	2012 $'m
Balance at the beginning of the year	**350.9**	311.8
Sale of new prepaid contracts	**32.0**	30.4
Initial recognition of contracts paid by instalment	**2.9**	2.6
Redemption of prepaid contract funds following service delivery	**(32.8)**	(28.3)
Increase due to business combinations	**-**	16.8
Increase in fair value of contract funds under management	**20.6**	17.6
Balance at the end of the half-year	**373.6**	350.9

(c) Movements in prepaid contract liabilities

	2013 $'m	2012 $'m
Balance at the beginning of the year	**355.1**	317.6
Sale of new prepaid contracts	**32.0**	30.4
Initial recognition of contracts paid by instalment	**2.9**	2.6
Decrease following delivery of services	**(32.5)**	(30.3)
Increase due to business combinations	**-**	17.2
Increase due to reassessment of delivery costs	**19.0**	17.7
Balance at the end of the half- year	**376.5**	355.1

Approximately 76% of InvoCare's prepaid funds under management are with the Over Fifty Guardian Friendly Society. This fund now holds approximately 60% of its assets in cash and fixed interest compared to 75% at 31 December 2012. During this time the fund has continued to diversify into property assets and has made a small increased allocation to equities.

Movements in the total asset mix of all funds under management over the last 12 months are illustrated in the following table:

	31 Dec 2013 %	30 June 2013 %	31 Dec 2012 %
Equities	13	10	8
Property	23	25	17
Cash and fixed interest	64	65	75

Asset sale gains and losses

Gains on the sale of assets of $3.2 million after tax included $1.3 million for the sale of a small parcel of cemetery land in Sydney and $1.8 million relating to the sale of a surplus funeral property in Melbourne.

Impairment reversal

Under IFRS, InvoCare is required to regularly review the carrying value of its business assets. Due to the continued improvement in financial performance, the prior impairment on certain assets was partially reversed during the year resulting in an after tax gain of

$3.4 million. This was offset to some extent by new impairments identified with an after tax impact of $1.2 million. As result net after tax impact gains were $2.2 million (2012: $Nil)

Income tax expense

Income tax expense on reported profit was $19.0 million (2012: $18.0 million), representing an effective rate of 28.0% (2012: 28.8%).

Income tax expense on operating earnings[3] decreased by $0.2 million to $17.8 million (2012: $18.0 million) and the effective rate was 29.5% (2012: 29.7%). The major difference between tax expense on reported profit and operating earnings was the tax effect on undelivered prepaid contracts, asset sales gains and impairments.

The main contributors to the effective rates being different to Australia's corporate 30% tax rate are set out in the following table:

	2013 $'m	2012 $'m
Prima facie tax at 30% (2012: 30%) on profit from ordinary activities	**20.4**	18.8
Plus/(minus):		
Previously unrecognised capital losses offsetting capital gains and unrecognised capital losses	**(0.7)**	(0.4)
Eliminations of translation gains / (losses) on intercompany balances in foreign currencies	**0.4**	0.2
Reassessment of depreciation rates applicable to New Zealand assets	**(0.6)**	-
Acquisition costs not deductible	**0.1**	0.1
Share of net profit of an associate	**0.1**	-
Other items (net)	**0.4**	0.1
Difference in overseas tax rates	**(0.8)**	(0.7)
Under / (over) provision in prior years	**(0.2)**	-
Income tax expense	**19.0**	18.0

Cash flow highlights

	2013 $'m	2012 $'m
Net cash provided by operating activities	**72.2**	53.2
Asset sale proceeds	**8.0**	3.3
Asset purchases	**(19.3)**	(18.4)
Purchase of subsidiaries and businesses	**(8.1)**	(9.3)
Purchase of interest in associates	**(5.0)**	-
Net cash used in investing activities	**(24.4)**	(24.4)
Dividends paid	**(37.4)**	(34.4)
Deferred Employee Share Plan purchases	**(0.8)**	(1.2)
Net (decrease) / increase in borrowings	**(6.8)**	7.1
Other movements	**(0.1)**	(0.1)
Net cash from / (used) in financing activities	**(45.1)**	(28.6)
Net increase in cash during year	**2.7**	0.2
Cash at start of year	**6.1**	5.9
Exchange rate effects	**0.1**	-
Cash at end of the year	**8.9**	6.1

Cash flows provided by operating activities were up on last year by $19.0 million to $72.2 million, which resulted from the benefit of improved working capital management (by $6.0 million), in particular creditor payments, and lower income tax payments (by

[3] Operating earnings is non-IFRS financial information

$3.8 million), the latter arising mainly from a higher final Australian 2011 year income tax payment in the first half of 2012 to make up for lower pay as you go instalments during 2011.

Improvements in working capital management have resulted in 110% Operating EBITDA conversion to cash for the period, compared to 95% for the 2012 full year as shown in the table below.

	2013 $'m	2012 $'m
Operating EBITDA	**95.1**	93.0
Cash provided by operating activities	**72.2**	53.2
Add finance costs	**16.3**	15.6
Add Income tax paid	**15.9**	19.9
Less interest received	**(0.1)**	(0.2)
Ungeared, tax free operating cash flow	**104.3**	88.5
Proportion of operating EBITDA converted to cash	**110%**	95%

The stronger operating cash flows and asset sale proceeds helped fund capital expenditure, business acquisitions and the HeavenAddress investment. Capital expenditure related to:

	2013 $'m	2012 $'m
Refurbishments and facility upgrades	**8.0**	6.1
Motor vehicles	**6.5**	6.0
Digital Business	**2.1**	2.2
Other assets	**2.7**	4.1
Total capital expenditure	**19.3**	18.4

Dividends paid in the year were 34.0 cents per share, totalling $37.4 million. The amount included $7.5 million for the on market purchase of shares for the dividend reinvestment plan.

Shares amounting to $0.8 million (2012: $1.2 million) were acquired during the year by the InvoCare Deferred Employee Share Plan Trust in connection with long term, share-based incentives for senior management.

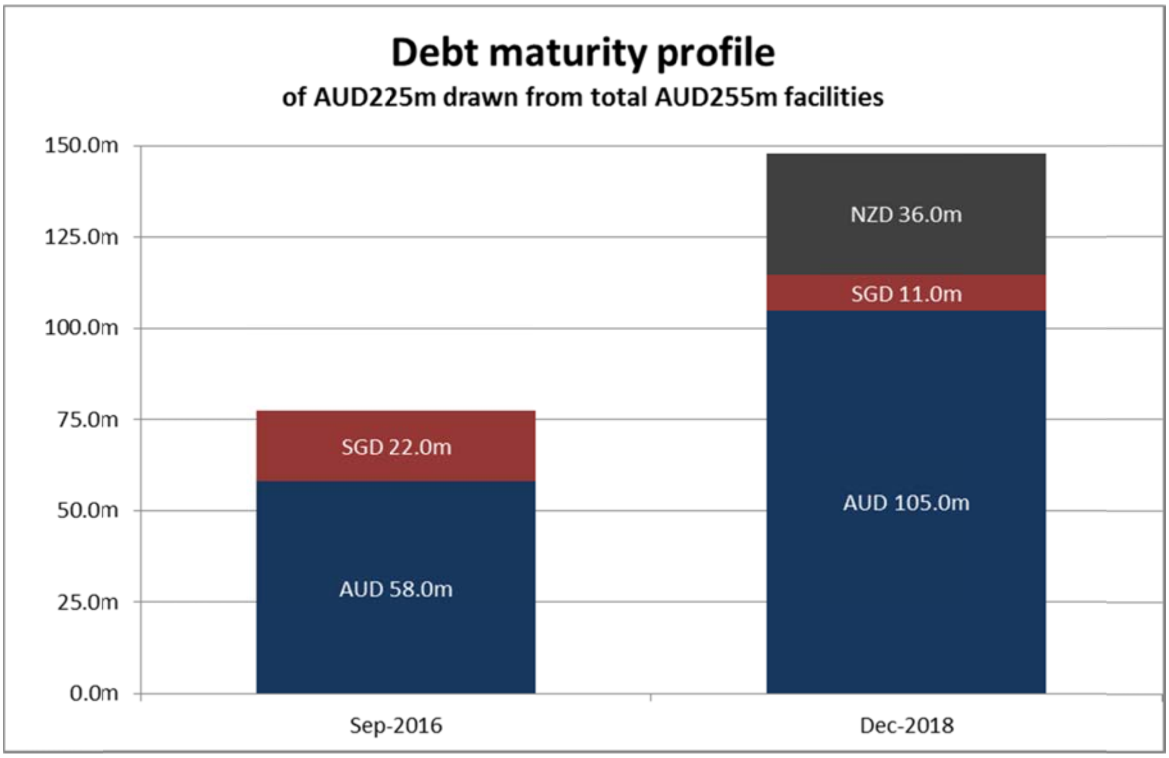
Capital management

At 31 December 2013, the Group had drawn down $225 million borrowings (from total $255 million debt facilities) compared to $231 million at 30 June 2013 and $224 million at 31 December 2012. Net debt at 31 December 2013 was $216 million which was down on the balance at 30 June 2013 of $224 million and 31 December 2012 of $218 million.

During the last quarter of 2013 InvoCare refinanced $170 million of its $255 million bi-lateral, multi-currency, revolver facilities established in September 2010 and provided in equal proportions by Australia and New Zealand Banking Group Limited ("ANZ"), National Australia Bank Limited ("NAB") and Commonwealth Bank of Australia ("CBA"), including in the case of NZD, their respective New Zealand subsidiaries or branch.

As a result of the refinancing, the previous four and five year tranches totalling $127.5 million together with $42.5 million of the three year tranche were rolled into new five year bi-lateral facilities of $170 million due to mature in December 2018. The September 2016 maturity date of the $85 million three year tranches refinanced in December 2012 remains unchanged. The three year tranches are now provided in equal proportions by ANZ and CBA. The five year tranches are provided in equal proportions by ANZ, CBA, Westpac Banking Corporation ("Westpac") and HSBC Bank Australia Limited ("HSBC").

The current facilities' drawings comprise AUD163.0 million, SGD33.0 million and NZD36.0 million and the maturity profile is shown in the graph below. The foreign currency drawings naturally hedge investments in foreign Singapore and New Zealand markets.



Financial covenant ratios on the borrowing facilities are a Leverage Ratio (being Net Debt to EBITDA adjusted for acquisitions) which must be no greater than 3.5 and an Interest Cover Ratio (being EBITDA to net interest) which must be greater than 3.0. Both these ratios continue to be comfortably met at 31 December 2013, being 2.3 and 6.4 respectively.

To maintain certainty over cash flows, the Group's policy is to maintain at least 75% of hedging cover for the next 12 months of forecast borrowings and 50% beyond 12 months up to a maximum of five years. At balance date, 80% of debt principal was covered by floating to fixed interest rate swaps. The table below shows the current swap profile, including the fixed rate payable in return for receipt of floating rates (eg. BBSW in the case of AUD denominated borrowings). As a consequence of hedging, InvoCare has not enjoyed the benefit of the recent reductions in market rates on its hedged debt.

Swap Principal	Start Date	Termination Date	Fixed Rate Payable
AUD 64.5m	Sep-2010	Sep-2014	5.42%
AUD 30.0m	Jun-2011	Jun-2015	5.33%
AUD 60.0m	Sep-2013	Sep-2016	4.75%
AUD 60.0m	Sep-2014	Sep-2017	3.98%
SGD 27.0m	Sep-2010	Sep-2013	1.19%
NZD 27.0m	Sep-2011	Sep-2015	3.72%

The overall average effective interest rate is currently 6.1%, inclusive of fixed rates on hedged debt, floating rates on unhedged debt, margins (based on tranche tenor and leverage – currently averaging around 167bps), undrawn commitment fees and amortisation of establishment fees.

Headroom on the debt facilities of $29.8 million and cash of $9.0 million, provided $38.8 million in available funds at 31 December 2013. This amount together with operating cash flows will provide further capacity to fund near term growth opportunities.

Outlook

Sales revenue in January 2014 was 7.6% higher than the same month last year. Comparable business sales (ie. excluding the New Zealand acquisitions completed in 2013) increased by 6.1%. EBITDA margin leverage growth was achieved with this sales improvement and continuing tight management of costs.

Funeral case volumes for both the total and comparable business have shown a return to year on year growth (4.4% and 2.4%), although cemetery and crematoria cases increased by a lower 0.5%. Whether the increases are a result of improved market share, a recovery in the number of deaths or a combination of both is yet to be established. To address market share challenges, strategies and plans have been developed and are being implemented in key areas including people, marketing and digital.

Average revenue per funeral case has reflected normal price increases introduced as planned in late 2013. Cemetery and crematorium prices are scheduled to be increased in the first quarter of 2014.

The New Zealand acquisitions completed in 2013 are performing to plan and are expected to generate an estimated $4.5 million and $1.0 million in sales and EBITDA respectively in 2014.

If the sales revenue continues to improve, to more adequately pursue and support growth some relaxation of the cost constraints imposed during the second half of 2013, particularly personnel, marketing and digital, may be possible.

InvoCare continues to review expansion opportunities both in Australia and abroad. There has been discussion with a number of potential vendors. There is no certainty about the success or timing of any acquisitions, nor of any movement into new markets.

The prepaid funeral fund returns are expected to be similar to 2013, although equity market returns during January 2014 were negative. This outlook assumes targeted investment returns are achieved from appropriate asset investment allocations and stable equity and property markets.

The group’s capital expenditure in 2014 is expected to be approximately $20 million. The main investments planned include the upgrading of funeral homes, initial plans for upgrade of the operations centres, continuing investment in chapel facilities and further investment in digital technology. InvoCare will continue its practice of reviewing the performance of its property assets and, if required, may dispose underperforming assets.

There has been no change to InvoCare’s capital management plans. Sufficient funds are expected to be available from debt facilities and free cash flows for capital expenditure and smaller “bolt on” acquisitions. If a more substantial opportunity arises, alternative funding sources, such as an equity raising, would be considered. The refinancing of $170 million of borrowings in December 2013 is expected to reduce finance costs in 2014 by approximately $0.6 million, at current debt levels. No debt facilities are due to mature in 2014.

It remains the policy of the Board to distribute at least 75% of operating earnings after tax[4] as dividends, as well as increase the quantum of those dividends year on year. Despite the flat year on year operating results, the 2013 final dividend has been increased to 19.5 cents which is 0.5 cents higher than 2012. This was made possible by sustained operating EBITDA to cash conversion mentioned earlier.

[4] Operating EBITDA and operating earnings after tax is non-IFRS financial information.

InvoCare remains focussed on its core pillars for continued growth in 2014. The ongoing areas of focus in 2014 include:

- Continue investment in advertising, marketing and digital business to drive brand awareness, customer satisfaction, market share improvement and business efficiencies;
- Broadening the footprint of key brands, for example by opening new funeral homes;
- Pursuing acquisition opportunities in existing countries of operation and further afield, although the size, timing and success is uncertain;
- Investing in our people and facilities to enhance the experience for our client families and to continue our commitment to the development and welfare of our staff; and
- Seeking sustained improvement in returns on funds under management.

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Other information

Net Tangible Asset Backing per Share

	31 Dec 2013 $'000	30 June 2013 $'000	31 Dec 2012 $'000
Net assets	**170,697**	152,514	151,891
Add deferred tax liabilities	**28,755**	28,863	28,502
Less intangible assets	**(148,912)**	(141,772)	(137,484)
Net tangible assets	**50,540**	39,605	42,909
Number of shares outstanding	**110,030,298**	110,030,298	110,030,298
Net tangible assets per share	**$0.46**	$0.36	$0.39

Acquired or Disposed of Controlled Entities

Details of acquisitions of business assets are set out in the audited Financial Report.

During the year Australian Pre-Arranged Funeral Plan Pty Ltd, the trustee of a prepaid funeral plan associated with the Gregory & Carr business sold in 2011 was sold to the current owners of Gregory & Carr. Other than this there were no acquisitions or disposals of controlled entities during the year ended 31 December 2013.

Associates and Joint Ventures

In January 2013, InvoCare invested $5.0 million in its associated entity HeavenAddress Pte Limited, which resulted in an increase in its shareholding from 28% to 35%.

The Company has no other related associates or joint venture entities.

Compliance Statement

This report is based on the audited Financial Report for the year ended 31 December 2013. It is lodged with the ASX under Listing Rule 4.3A.