InvoCare Limited
ABN 42 096 437 393

Appendix 4D – Half-year Report
For the Half-year Ended 30 June 2014

Lodged with Australian Securities Exchange under Listing Rule 4.2A

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InvoCare Limited

Appendix 4D

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Results for announcement to the market

	Compared to actual for previous half-year ended 30 June 2013	Half-year Ended 30 June 2014 $'000
Total sales revenue	Up 6.8%	196,060
Total revenue from ordinary activities	Up 6.7%	199,530
Operating earnings after tax (see note 1)	Up 12.8%	19,443
Profit from ordinary activities after tax attributable to members	Down 3.0%	20,807
Net profit after tax attributable to ordinary equity holders of InvoCare	Down 3.0%	20,807

Dividends	**Amount per security**	**Franked Amount per security**
Interim dividend per ordinary share in respect of 31 December 2014 financial year **payable** on 3 October 2014 The **record date** for determining entitlements to the interim dividend and for DRP is 12 September 2014 and the election date for the DRP is 15 September 2014	15.75 cents	15.75 cents

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

Dividends

The interim fully franked ordinary dividend in respect of the financial year ending 31 December 2014 amounts to 15.75 cents per share, which is an increase of 5.0% from the interim dividend for the 2013 financial year.

Dividend reinvestment plan in operation

The Company's Dividend Reinvestment Plan ("DRP") will apply to the above interim 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 on market for transfer to shareholders, or a combination of both options. For the 2014 interim 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,12 September 2014. The ex-dividend date to be entitled to the interim dividend is 10 September 2014.

In order to participate in the DRP, the Company's share registry must receive the election notice by 15 September 2014.

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 4D Half Year Report.

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Results for announcement to the market

Result highlights

Result highlights:	2014 $'000's	2013 $'000's	Change $'000's	Change %
Total sales to external customers	**196,060**	183,641	12,419	6.8%
Other revenue	3,470	3,437	33	1.0%
Operating expenses (i)	(154,797)	(145,787)	(9,010)	6.2%
Operating EBITDA (i)	**44,733**	41,291	3,442	8.3%
Operating margin	*22.8%*	*22.5%*		*0.3%*
Depreciation and amortisation	(9,385)	(8,654)	(731)	8.4%
Finance costs	(7,777)	(8,350)	573	(6.9%)
Interest income	360	328	32	9.8%
Business acquisitions costs	(309)	(221)	(88)	39.8%
Share of loss of associates	(205)	(50)	(155)	310.0%
Operating earnings before tax (i)	**27,417**	24,344	3,073	12.6%
Income tax on operating earnings (i)	(7,974)	(7,112)	(862)	12.1%
Effective tax rate	*29.1%*	*29.2%*		*(0.1%)*
Operating earnings after tax (i)	**19,443**	17,232	2,211	12.8%
Operating earnings per share (i)	*17.8 cents*	*15.8 cents*	*2.0 cents*	*12.7%*
Net gain on undelivered prepaid contracts after tax (i)	1,437	840	597	
Asset sales gain or (loss) after tax (i)	(33)	1,344	(1,377)	
Impairment gain after tax (i)	-	2,100	(2,100)	
Non-controlling interest	(40)	(62)	22	
Net profit after tax attributable to ordinary equity holders of InvoCare	**20,807**	21,454	(647)	(3.0%)
Basic earnings per share	19.0 cents	19.6 cents	(0.6) cents	(3.1%)
Interim ordinary dividend per share	15.75 cents	15.00 cents	0.75 cents	5.0%

(i) Non-IFRS financial information.

Financial overview

Operating earnings after tax were up by 12.8% or $2.2 million to $19.4 million (2013: $17.2 million).

Reported profit after tax was down 3.0% to $20.8 million (2013: $21.5 million). The year on year decline was impacted by after tax impairment reversals and asset sales gains totalling $3.4 million in 2013 which were not repeated in 2014.

Total funeral case volumes were up 1.4% but only 0.1% on a comparable basis (ie. excluding acquisitions). On a positive note the half finished strongly with case volumes on a comparable basis up 3.4% in May and June compared to a 4.2% decline experienced in the same two months in 2013.

InvoCare believes from its market intelligence that there has been an increase in the numbers of deaths in its Australian and New Zealand markets, particularly in May and June, whilst Singapore numbers have remained relatively flat. InvoCare also estimates its overall market share has remained relatively stable since December 2013 but, importantly, the declines experienced from mid-2013 have largely been arrested.

Sales revenues were up 6.8% to $196.1 million (2013: $183.6 million) supported by volume improvements and average funeral contract values which were up 5.4% on PCP.

Group EBITDA to sales margin was up 0.3% to 22.8% (2013: 22.5%) driven by increased revenues and continued focus on cost management.

Cash flows remained strong for the half. Ungeared, tax free operating cash flow was 110% of EBITDA (2013: 118%), underpinning the ability to pay a fully franked interim dividend of 15.75 cents per share, which is 0.75 cents or 5.0% up on last year.

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

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

	2014 $'million	2013 $'million	Change $'million	Change %
Sales Revenue				
Australia	**169.4**	161.8	7.6	4.7%
New Zealand	**17.5**	14.8	2.7	18.4%
Singapore	**6.7**	6.5	0.2	2.4%
Comparable business	**193.6**	183.1	10.5	5.7%
Acquisitions (NZ)	**2.4**	0.5	1.9	
Total InvoCare	**196.1**	183.6	12.4	6.8%
EBITDA				
Australia	**37.8**	35.9	1.9	5.3%
New Zealand	**3.4**	2.2	1.2	53.4%
Singapore	**3.2**	3.1	0.1	2.6%
Comparable business	**44.4**	41.2	3.2	7.7%
Acquisitions (NZ)	**0.4**	0.1	0.3	
Total InvoCare	**44.7**	41.3	3.4	8.3%
Margin on sales				
Australia	**22.3%**	22.2%		0.1%
New Zealand	**19.5%**	15.0%		4.5%
Singapore	**47.5%**	47.4%		0.1%
Comparable business	**22.9%**	22.5%		0.4%
Acquisitions (NZ)	**14.9%**	16.9%		
Total InvoCare	**22.8%**	22.5%		0.3%

The following table shows EBITDA performance of the business as discussed in the following sections of the report.

	2014 Actual $'m	% of Gross Sales	2013 Actual $'m	% of Gross Sales	Variance Act V LY $'m	Variance Act V LY %
Total - all lines of business						
Sales Revenue	**196.1**	**100.0%**	**183.6**	**100.0%**	**12.4**	**6.8%**
Other revenue	3.5	1.8%	3.4	1.9%	0.1	2.9%
Finished goods, consumables & funeral disbursements	(57.2)	29.2%	(53.9)	29.4%	(3.3)	(6.1%)
Personnel	(63.6)	32.4%	(60.0)	32.7%	(3.6)	(6.0%)
Advertising & public relations expenses	(7.6)	3.9%	(6.8)	3.7%	(0.8)	(11.8%)
Occupancy & facility expenses	(13.1)	6.7%	(12.7)	6.9%	(0.4)	(3.1%)
Motor vehicle expenses	(4.1)	2.1%	(4.0)	2.2%	(0.1)	(2.5%)
Other expenses	(9.1)	4.6%	(8.4)	4.6%	(0.7)	(8.3%)
Operating expenses	(154.8)	78.9%	(145.8)	79.4%	(9.0)	(6.2%)
Operating EBITDA	**44.7**	**22.8%**	**41.3**	**22.5%**	**3.4**	**8.3%**
Operating margin % on sales revenue	22.8%		22.5%			0.3%

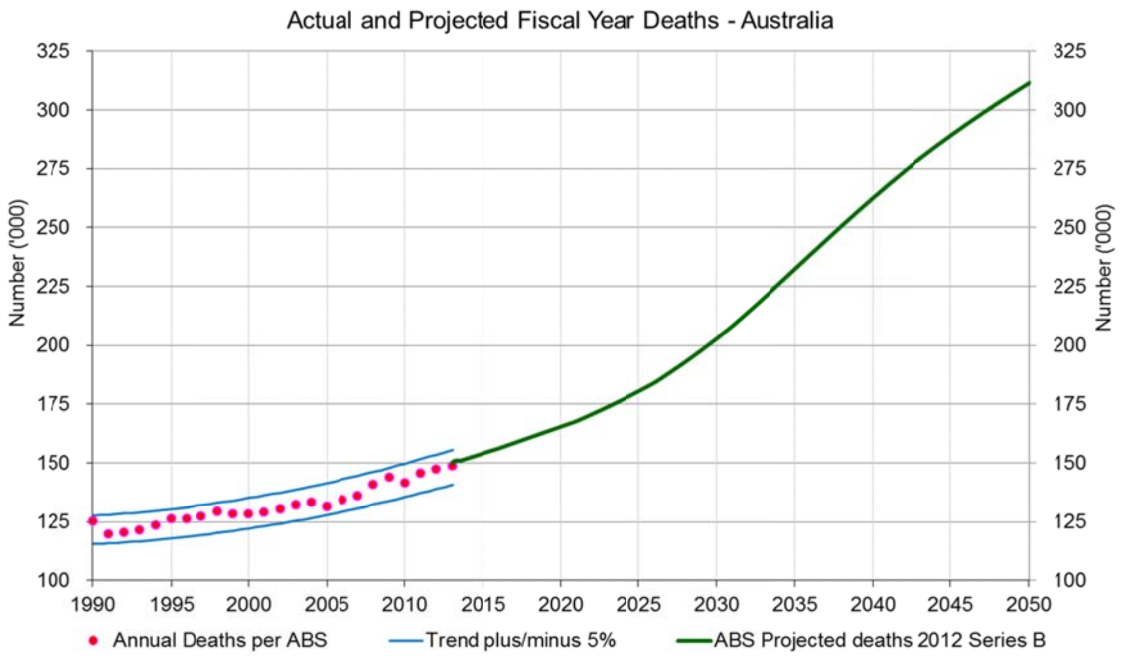
Note that the data in the table above has been calculated in thousands and presented in millions and as a consequence some additions cannot be computed from the tables as presented.

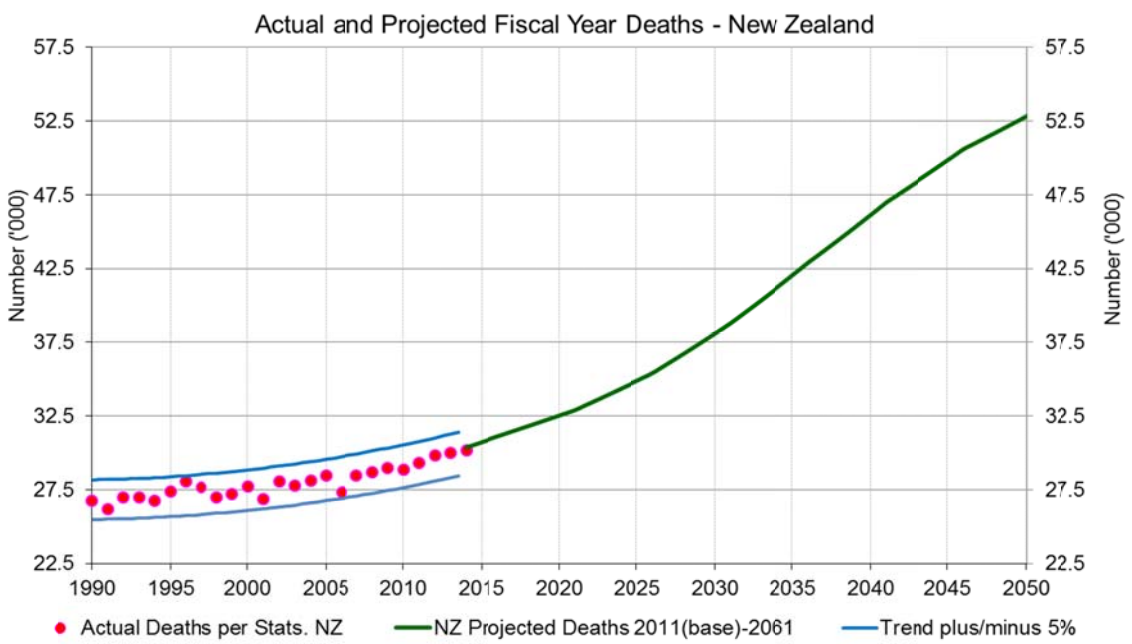
Number of deaths and market share.

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 number of deaths is a major pillar of growth for the Group. However, short term fluctuations in the number of deaths do occur such that in any year the number can be up to 5% 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 in future years.





The table below[1] illustrates the trend in InvoCare's funeral case volumes over the last eighteen months.

	2014 Vs 2013			2013 Vs 2012				
	Apr YTD	May & June	Half 1	Apr YTD	May & June	Half 1	Half 2	Full Year
Australia	-1.6%	2.5%	-0.1%	1.1%	-2.7%	-0.3%	-5.1%	-2.8%
New Zealand	-3.0%	11.6%	1.8%	4.2%	-14.4%	-2.7%	-7.4%	-5.2%
Australia & New Zealand	-1.7%	3.4%	0.1%	1.4%	-4.1%	-0.6%	-5.4%	-3.1%
Singapore	0.7%	2.5%	1.3%	-2.0%	-4.7%	-2.9%	2.6%	-0.3%
Total comparable business	-1.6%	3.4%	0.1%	1.3%	-4.2%	-0.7%	-5.1%	-3.0%
Total Group (incl. acquisitions)	-0.3%	4.6%	1.4%	4.0%	-1.5%	2.0%	-2.0%	-0.1%

From May 2013 funeral volumes for the comparable business began to decline on a year on year basis. This trend continued for the remainder of 2013 resulting in a second-half decline of 5.1% and full year decline of 3.0%. InvoCare has previously estimated that the causes of the declines were related to a possible cyclical down turn in the number of deaths and falling market share.

The trends experienced in the second-half of 2013 appear to have continued into the early months of 2014 with comparative funeral volumes tracking down 1.6% for the first four months to April. The declining trend appears to have been reversed in May and June which recorded strong year on year growth of 3.4%. At this stage it appears the increases are mainly death related but it is too early to say whether this increase is indicative of a cyclical trend back towards the longer term average number of deaths.

InvoCare estimates it has maintained similar overall market share since December 2013 across its markets, albeit lower than at June 2013 after some erosion during the second half of 2013.

InvoCare's Australian cemeteries and crematoria operating in New South Wales and Queensland experienced a 2.1% decline in cremation and burial service volumes to the end of April. Similar to funerals, cremation and burial service volumes have picked up in May/June growing 4.9%. Overall market share is estimated to have been maintained.

Commentary on the period since 30 June 2014 is set out in the Outlook section of this Appendix 4D.

[1] Comparable businesses in the table comprise a different mix in 2014 from 2013. The 2013 percentages are as presented in the FY 2013 results presentation.

Sales

Key components of sales movements by market segment are summarised below:

- Australian funeral sales increased 3.4% or $4.5 million to $135.5 million (2013: $131.0 million).
    - Average revenue per funeral case, excluding disbursements and delivered prepaid impacts, increased 4.4% and contributed an estimated $4.2 million to sales and EBITDA growth. This increase is attributable to both price and mix. The price component included normal price increases applied in December 2013 as well as additional price increases applied early in the second half of 2013 to help cover increased costs. Brand and state mix shifts also assisted the overall case averages.
    - The number of funeral services performed was down slightly on the prior year by 0.1% although there was a significant improvement in May/June with volumes up by 2.5% on the PCP compared to a 1.6% decline in the four months to April and a 2.7% decline for the same period in 2013.
    - Initiatives implemented in mid-2013 to specifically address market share appear to have arrested the declines experienced in the second half of 2013. These initiatives have included:
        - Reinforcing customer service excellence
        - Enhancing employee engagement
        - Additional targeted investment in advertising and promotion
        - Continued investment in digital facilities and omni-channel
        - Community involvement
        - Introduction of mobile arrangers in 5 localities in Australia and 1 in New Zealand
        - Co-branding some key locations
        - Opening a net three new locations in Australia in 2013 and one in H1 2014
    - The number of new prepaid funeral contracts sold by the Australian business were down by 4.2% on the previous year but showed an improvement on the second half of 2013 which suffered a 6.3% decline. The number of new contracts exceeded prepaid services performed by 10.7% (2013: 14.5%). Prepaid funerals performed in the year were 14.3% (2013: 14.5%) of at-need funerals.
- Australian cemeteries and crematoria sales were up 10.0% or $3.6 million to $39.1 million (2013: $35.6 million). This included deferred revenue adjustments of $1.8 million which were $1.4m lower than the prior year (2013: $3.2 million) due to increased memorial construction activity and completion of pre-sold crypts. List prices were raised by an average of 4.9% during the first quarter.
- Comparable New Zealand sales (in NZD) were up 4.2% or $0.8 million to $18.9 million (2013: $18.1 million). This comprised increased case volumes which were up 1.8% on PCP and higher funeral case averages which increased by 2.5% following planned price increases. In AUD New Zealand sales were up 18.4% to $17.5 million (2013: $14.8 million) which included favourable FX movements of $2.1 million.
- Including acquisitions New Zealand sales (in NZD) were up 14.6% or $2.7 million to $21.5 million.
- Singapore funeral sales (in SGD) decreased by 6.4% to $7.7 million (2013: $8.2 million). Case volumes improved 1.3% on PCP but were offset by average contract values which were down 7.7% due to a shift in product mix towards lower value packages and increased competition. In AUD Singapore sales increased 2.4% to $6.9 million (2013: $6.5 million) which included favourable FX movements of $0.6 million.
- Intra-group elimination of cemeteries and crematoria sales to InvoCare owned funeral homes amounted to $5.2 million (2013: $4.9 million).

Other revenue

Other revenue remained flat at $3.5 million on both a total and comparable basis. 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 8.3% or $3.4 million to $44.7 million (2013: $41.3 million). The margin on sales improved 0.3% to 22.8%. On a comparable basis, Operating EBITDA increased by $3.2 million or 7.7% to $44.4 million (2013: $41.2 million) with margins improving 0.4% to 22.9%.

Favourable FX movements benefited Operating EBITDA by $0.7 million, as the NZD and SGD strengthened against the AUD.

Operating expenses (excluding depreciation, amortisation, acquisition related, finance costs and share of associates net loss) increased $9.0 million or 6.2% to $154.8 million. On a comparable basis excluding the impact of the acquisitions, the increase was 5.1% or $7.4 million.

Backing out foreign exchange movement impacts of $2.1 million (to reflect constant exchange rates), operating expenses increased by 4.7%.

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

	2014 Actual $'m	% of Gross Sales	2013 Actual $'m	% of Gross Sales	Variance Act V LY $'m	Variance Act V LY %
Total - all lines of business						
Sales Revenue	**193.6**	**100.0%**	**183.1**	**100.0%**	**10.5**	**5.7%**
Other revenue	3.5	1.8%	3.4	1.9%	0.1	2.9%
Finished goods, consumables & funeral disbursements	(56.2)	29.0%	(53.7)	29.3%	(2.5)	(4.7%)
Personnel	(63.0)	32.5%	(59.8)	32.7%	(3.2)	(5.4%)
Advertising & public relations expenses	(7.5)	3.9%	(6.8)	3.7%	(0.7)	(10.3%)
Occupancy & facility expenses	(13.0)	6.7%	(12.6)	6.9%	(0.4)	(3.2%)
Motor vehicle expenses	(4.1)	2.1%	(4.0)	2.2%	(0.1)	(2.5%)
Other expenses	(9.0)	4.6%	(8.4)	4.6%	(0.6)	(7.1%)
Operating expenses	(152.7)	78.9%	(145.3)	79.4%	(7.4)	(5.1%)
Operating EBITDA	**44.4**	**22.9%**	**41.2**	**22.5%**	**3.2**	**7.8%**
Operating margin % on sales revenue	22.9%		22.5%			0.4%

On a comparative basis, cost of goods sold (excluding disbursements) increased as a percentage of gross sales from 12.4% in 2013 to 12.7% in 2014. Contributing to this increase was a cemeteries and crematoria sales mix shift towards lower margin monumental sales.

Personnel costs were up 5.4% but were down as a percentage of sales revenue to 32.5% (2013: 32.7%). 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. Short term incentive bonus expenses are up $1.3 million on PCP as trading results have improved. Continued focus on fixed and casual staffing levels saw a slight increase in overtime costs particularly during the busier May and June periods where funeral volumes were well up on PCP.

Advertising and marketing expenditure increased by $0.7 million or 10.3% to $7.5 million (2013: $6.8 million). The bulk of this increase was focused on driving brand exposure

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

through main media including TV, radio, press and outdoor advertising. The increase was also off a low 2013 base which had been cut back to address case volume and operating leverage pressures. The additional expenditure also covered a Simplicity brand development program which was implemented in the second quarter.

Other expenses were up by $0.6 million or 7.1% to $9.0 million (2013: $8.4 million). This included incremental, non-capital costs associated with the planning and design stages of new digital projects including website site design, ERP upgrade and cloud based CRM licences.

Comparable Australian operating EBITDA margin on sales improved to 22.3% against the 22.2% achieved in H1 2013. The improved margins reflect the impact of higher case volumes and improved case averages offsetting increases in the relatively high fixed cost structure.

New Zealand comparative EBITDA margins in local currency improved strongly from 15.0% of sales in H1 2013 to 19.5% in H1 2014. The improving margins reflected the impact of higher case volumes (up 1.8%), case averages (up 2.5%) and lower operating expenses which were down by 1.7% on PCP with continued focus on head count and labour savings.

Singapore EBITDA to sales margins improved marginally from 47.6% to 47.8% in local currency. Although margins improved, overall EBITDA declined by 6.2% from SGD3.9 million in 2013 to SGD3.7 million in 2014 due to a shift in sales mix towards lower value funeral packages.

Depreciation and amortisation expenses

Depreciation and amortisation expenses were up $0.7 million in 2014 to $9.4 million (2013: $8.7 million). This increase included $0.1 million associated with New Zealand business acquisitions made in 2013. The remainder of the increase was associated with replacement of motor vehicles (including hearses and the continued replacement of the previously leased vehicles), leasehold and owned property refurbishments, cremator re-bricking and capitalised digital project costs.

Finance costs

Finance costs decreased by $0.6 million to $7.8 million (2013: $8.4 million). The decrease was driven primarily by the refinancing of $170 million of senior debt facilities at the end of 2013 which resulted in a reduction in the effective interest rate.

Acquisition related costs

Acquisition related costs of $0.3 million were up $0.1 million on PCP (2013: $0.2 million). These include expenses relating to the potential acquisition of two cremation memorial park operations in New Zealand as well as costs associated with other opportunities both closed or currently under investigation.

Share of associate

InvoCare has a 34.6% investment in HeavenAddress which provides on-line memorial solutions. The company is in the early stages of its development and InvoCare has recognised a $0.2 million share of the small operating loss in accordance with equity accounting standards.

Undelivered prepaid contract gains

Net gains on undelivered prepaid contracts were $2.1 million, an improvement of $0.8 million on the position achieved in 2013. The current half year gain comprised $10.0 million increase in the fair value of funds under management offset by $7.9 million growth in the future liability to deliver prepaid services (see table (a) below).

The fair value uplift of $10.0 million in funds under management was $1.2 million higher than the PCP which was impacted by transaction costs associated with a property acquisition by the main Guardian fund in June 2013.

During the half year the preneed liability was increased to progressively recognise the impact of expected price increases. This resulted in liability growth of $7.9 million which was up on last year's $7.6 million due to the increasing size of the liability pool.

(a) Income statement impact of undelivered prepaid contracts

	2014 $'m	2013 $'m
Gain on prepaid contract funds under management	**10.0**	8.8
Change in provision for prepaid contract liabilities	**(7.9)**	(7.6)
Net gain on undelivered prepaid contracts	**2.1**	1.2

(b) Movements in prepaid contract funds under management

	2014 $'m	2013 $'m
Balance at the beginning of the year	**373.6**	350.9
Sale of new prepaid contracts	**16.0**	16.1
Initial recognition of contracts paid by instalment	**1.3**	1.3
Redemption of prepaid contract funds following service delivery	**(16.2)**	(16.3)
Increase in fair value of contract funds under management	**10.0**	8.8
Balance at the end of the half-year	**384.7**	360.8

(c) Movements in prepaid contract liabilities

	2014 $'m	2013 $'m
Balance at the beginning of the year	**376.5**	355.1
Sale of new prepaid contracts	**16.0**	16.1
Initial recognition of contracts paid by instalment	**1.3**	1.3
Decrease following service delivery	**(16.3)**	(16.3)
Increase due to reassessment of delivery costs	**7.9**	7.6
Balance at the end of the half- year	**385.5**	363.8

Approximately 78% of InvoCare's prepaid funds under management are with the Over Fifty Guardian Friendly Society. Asset allocations of this fund remained relatively steady during the half with a slight shift towards cash and fixed interest as no additional investments were made in property or equities during the period. Reasonable returns continue from property and term deposits, although alternative investments will be required as older, high rate term deposits mature during 2015 and 2016.

Movements in the total asset mix of all funds under management over the last 18 months are illustrated in the following table:

	30 June 2014 %	31 Dec 2013 %	30 June 2013 %	31 Dec 2012 %
Equities	**11**	13	10	8
Property	**22**	23	25	17
Cash and fixed interest	**67**	64	65	75

Asset sale gains and losses

The after tax impact of asset sales gains and losses were down $1.3 million on PCP as the property gains in the first half of 2013 were not repeated in 2014.

Impairment reversal

Under IFRS, InvoCare is required to regularly review the carrying value of its business assets to ensure they do not exceed their recoverable amount. Following a review of the business assets at 30 June 2014 it was concluded that the carrying values are sufficient and therefore no further impairments or reversal of prior impairments are required at this time. At 30 June 2013, after tax impairment reversals of $2.1 million were made.

Income tax expense

Income tax expense on reported profit was $8.7 million (2013: $8.4 million), representing an effective rate of 29.4% (2013: 28.1%).

Income tax expense on operating earnings[3] increased by $0.9 million to $8.0 million (2013: $7.1 million) and the effective rate was 29.1% (2013: 29.2%). The major difference between tax expense on reported profit and operating earnings was the tax effect on undelivered prepaid contracts, asset sales gains and impairment reversals.

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

	2014 $'m	2013 $'m
Prima facie tax at 30% (2013: 30%) on profit from ordinary activities	**8.9**	9.0
Plus/(minus):		
Previously unrecognised capital losses offsetting capital gains and unrecognised capital losses	**-**	(0.4)
Eliminations of translation gains / (losses) on intercompany balances in foreign currencies	**-**	0.2
Acquisition costs not deductible	**0.1**	0.1
Other items (net)	**0.2**	-
Difference in overseas tax rates	**(0.4)**	(0.3)
Over provision in prior years	**(0.1)**	(0.2)
Income tax expense	**8.7**	8.4

[3] Operating earnings is non-IFRS financial information

Cash flow highlights

	2014 $'m	2013 $'m
Net cash provided by operating activities	**29.2**	32.9
Asset sale proceeds	**0.2**	1.7
Asset purchases	**(13.5)**	(8.5)
Purchase of subsidiaries and businesses	**(1.5)**	(1.7)
Purchase of interest in associates	**-**	(5.0)
Net cash used in investing activities	**(14.8)**	(13.5)
Dividends paid	**(21.5)**	(20.9)
Deferred employee share plan purchases	**(1.2)**	(0.8)
Net increase in borrowings	**14.3**	2.8
Net cash used in financing activities	**(8.4)**	(18.9)
Net increase in cash during year	**6.0**	0.5
Cash at start of year	**8.9**	6.0
Exchange rate effects	**-**	0.1
Cash at end of the half year	**14.9**	6.6

Cash flows provided by operating activities were down on the first half of last year by $3.7 million to $29.2 million due to one off cash benefits from improved working capital management in 2013 which have been maintained into the first half of 2014 and additional income tax instalments. Asset purchases included $4.3 million for the acquisition of a strategic property in Perth. Purchase of businesses included the deposit paid on the proposed purchase of two memorial parks in Christchurch, New Zealand. The deposit is currently being held in trust pending regulatory approval and satisfactory completion of due diligence.

The operating EBITDA conversion to cash ratio for the period was 110% which was consistent with the 2013 full year but down compared to the 118% achieved for first half 2013 as shown in the table below.

	2014 $'m	2013 $'m
Operating EBITDA	**44.7**	41.3
Cash provided by operating activities	**29.2**	32.9
Add finance costs	**7.5**	8.1
Add Income tax paid	**12.4**	7.6
Less interest received	**(0.1)**	-
Ungeared, tax free operating cash flow	**49.0**	48.6
Proportion of operating EBITDA converted to cash	**110%**	118%

Capital expenditure (including the acquisition of a strategic property in Perth $4.3m) related to:

	2014 $'m	2013 $'m
Property, refurbishments and facility upgrades	**7.4**	3.4
Motor vehicles	**2.5**	2.7
Digital business	**1.8**	1.2
Other assets	**1.7**	1.2
Total capital expenditure	**13.4**	8.5

The 2013 final dividend of 19.5 cents per share, totalling $21.5 million, was paid in April 2014 (April 2013: 19.0 cents per share, $20.9 million). The amount this half included $4.1 million (2013: $4.3 million) for the on market purchase of shares for the dividend reinvestment plan.

Shares amounting to $1.2 million (2013: $0.8 million) were acquired during the year by the InvoCare Deferred Employee Share Plan Trust in connection with long term, share-based incentive scheme.

Capital management

At 30 June 2014, the Group had drawn down $239 million borrowings (from total $255 million debt facilities) compared to $225 million at 31 December 2013 and $231 million at 30 June 2013. Net debt at 30 June 2014 was $223 million which was up on the balance at 31 December 2013 of $216 million and down on 30 June 2013 of $224 million.

Senior debt comprises a $255 million bi-lateral, multi-currency, revolver facilities. This comprises three year tranches for $85 million with maturity dates of September 2016 and five year tranches of $170 million due to mature in December 2018. The three year tranches are provided in equal proportions by Australia and New Zealand Banking Group Limited ("ANZ"), and Commonwealth Bank of Australia ("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 AUD176.0 million, SGD33.0 million and NZD37.5 million. The foreign currency drawings naturally hedge investments in 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 30 June 2014, being 2.3 and 6.9 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, 75% 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%
NZD 27.0m	Sep-2011	Sep-2015	3.72%

The overall average effective interest rate is currently 6.0%, inclusive of fixed rates on hedged debt, floating rates on unhedged debt, margins (based on tranche tenor and leverage – currently averaging around 166bps), undrawn commitment fees and amortisation of establishment fees.

Headroom on the debt facilities of $16.0 million and cash of $15.0 million, provided $31.0 million in available funds at 30 June 2014. This amount together with operating cash flows will provide further capacity to fund near term growth opportunities.

Outlook

Funeral case volumes for July 2014 are up 7.5% for the group and 6.5% for the comparative business against the PCP. This trend has continued into the first two weeks of August and suggests the positive conditions experienced in May and June are continuing into the second half of 2014. In the absence of up to date death statistics we are unable to quantify the extent to which the improvement has been driven by market share, number of deaths or a combination of both.

Sales revenue for July 2014 for both the total and comparable businesses were up on PCP by 6.2% and 5.4% respectively. This has been volume driven with average funeral contract values up 3.6% but down on the growth of 5.4% achieved in the first half. The lower average contract growth reflects the targeted price increases made in July 2013 which have not been repeated in 2014.

EBITDA margins in July were down on PCP and reflect the impact of the 2013 mid-year price increases and timing of memorial constructions. Although for only one month, the lower margins experienced in July are expected to continue in the second half due to the continued impact of the 2013 mid year price increase and expected cost increases to more sustainable levels off the low 2013 base.

The New Zealand acquisitions completed in 2013 are performing to plan and are expected to generate an estimated $4.0 million and $1.0 million in sales and EBITDA respectively for the full year.

InvoCare continues to review expansion opportunities. During July 2014 the New Zealand Commerce Commission granted InvoCare permission to proceed with the acquisition of two memorial parks in Christchurch. The completion of the acquisition will depend on foreign investment approval and satisfactory conclusion of due diligence currently underway. In addition there have been discussions with a number of other potential vendors in existing markets although there is no certainty about the success or timing of any other acquisitions at this stage.

The challenge to continue growth by acquisition is recognised, especially since bedding down the Bledisloe acquisition.

Net unrealised gains on prepaid funds under management in the second half are expected to be similar to that achieved in the first half. This outlook assumes targeted investment returns are achieved from existing investment allocations and stable equity and property markets prevail.

The Group's capital expenditure in 2014 is expected to be approximately $20 million. The main investments planned include the upgrading of funeral homes, continuing investment in chapel facilities, motor vehicles 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.

Asset sale gains ($1.6 million after tax) and net impairment reversals ($0.2 million after tax) were recorded in the second half of 2013 and are not expected to recur in the second half of 2014.

At this stage there has been no change to InvoCare's capital management plans. Sufficient funds should be available from existing debt facilities and free cash flows for capital expenditure and smaller "bolt on" acquisitions in the shorter term. 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 has helped to reduce finance costs in the first half of 2014 by approximately $0.7 million. 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. Due to the strong cash conversion and growth in operating results, the 2014 interim dividend has been increased to 15.75 cents which is 0.75 cents or 5.0% higher than 2013 and represents 89% payout (2013: 96%).

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

- 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;
- Continue investment in advertising, marketing and digital business to drive brand awareness, improve customer service, increase market share and deliver business efficiencies;
- Pursuing acquisition opportunities in existing countries of operation and further afield, although the size, timing and success is uncertain; and
- Seeking sustained improvement in returns on funds under management.

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

Other information

Net tangible asset backing per share

	30-Jun-2014 $'000	31-Dec-2013 $'000	30-Jun-2013 $'000
Net assets	**170,493**	170,697	155,245
Add deferred tax liabilities	**28,936**	28,755	29,269
Less intangible assets	**148,279**	148,912	141,772
Net tangible assets	**51,150**	50,540	42,742
Number of shares outstanding	**110,030,298**	110,030,298	110,030,298
Net tangible assets per share	**$0.46**	$0.46	$0.39

Acquired or disposed of businesses and assets

No businesses were acquired or disposed of during the half year ended 30 June 2014.

Acquired or disposed of controlled entities

There were no acquisitions or disposals of controlled entities during the half year ended 30 June 2014.

Associates and joint ventures

InvoCare has a shareholding of 34.6% in HeavenAddress Pte Limited which has been equity accounted.

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