



CEO Review

I am pleased to report that InvoCare has completed a successful year with respect to both financial results and strategic initiatives. The Financial Highlights on page 2 illustrate the performance across key parameters showing the solid growth in revenues and the excellent growth in profitability. The results reflect the Company's and staff's commitment to service as much as its overall market share position.

Strategically, we continued our focus on service levels, major brand awareness improvement, asset management enhancement, including the performance of the prepaid funds under management, and acquisitions.

FINANCIAL OVERVIEW

For the year ended 31 December 2004, sales revenues exceeded our forecasts by 3%. For the full year the number of funerals performed was in line with our forecast, although there were fewer deaths in the second six months of the year than expected. Overall the number of deaths for 2004 is expected to be in line with forecasts, but the Australian Bureau of Statistics information is not yet available.

InvoCare generated \$17.1 million in profit after tax in 2004, which was 37% above the Prospectus forecast and up from \$11.6 million for the previous year. This was due to the increase in sales revenues of 6% on the prior year, an improvement in operating margins largely attributable to the fixed nature of the Company's cost base and a profit generated from asset sales. The earnings per share amounted to 18.1 cents up 36% on the Prospectus forecast and up 51% from 2003.

During the year the Company reduced its debt by 15% or \$23.5 million to \$131.5 million, exceeding its Prospectus debt reduction forecast by 62%.

The strong financial result enabled the Board to declare a final fully franked dividend of 9 cents per share. The total dividend paid or payable for the year amounted to 15.4 cents per share fully franked, a 20% increase on that forecast in the Prospectus.

This dividend together with the growth in the share price during the year has delivered superior returns to shareholders.

FUNERAL HOMES

Sales revenues from our 123 funeral homes was \$97.1 million – 3% above our forecasts and up from \$91.9 million in 2003. We also achieved the forecast 1% growth in funeral services performed. Thus the revenue gain was a composite of price increases, volume growth and the mix of funerals in relation to location and brand. Also contributing was the focus on product offerings and a better than expected contribution from prepaid funerals performed due to improved investment returns. We estimate there has been a small overall increase in market share in the markets in which InvoCare operates. White Lady Funerals and Simplicity Funerals in particular experienced growth in their market share. We will continue to build on this in 2005.

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Richard Davis, CEO

The brand awareness of our major brands remained strong, both nationally with Simplicity Funerals and White Lady Funerals and with the major ‘traditional style’ brands operating in each state. The new Guardian umbrella brand introduced in the past year in NSW, is slowly growing its brand awareness. The introduction of new signage and a continued advertising campaign will further assist this growth.

We have opened three new funeral homes in the past year, 2 in Melbourne at Frankston and Reservoir with another in Sydney’s north west at Richmond. In 2005 we expect to open three more new funeral homes, with one scheduled to open shortly at Manly in Sydney and at least 2 other new funeral homes planned for key markets around the country.

The client satisfaction index generated from our surveys, shows a 6% increase in 2004. The survey is sent to all our client families after the funeral service and around 40% respond. One of the key indicators from this survey is that 97% of families say they would definitely or probably recommend the services of an InvoCare funeral home. It also shows 88% believe InvoCare’s prices were in line with or below consumer expectations.

The efforts of our professional and committed staff cannot be forgotten in this list of achievements. They are the front line for InvoCare, delivering professional services, care and support to families. Their compassion and personal approach to each family make a difference not just to the Company’s overall performance, but most importantly to the individual families who appreciate their guidance at what for most is an emotional and stressful time.

CEMETERIES & CREMATORIA

Sales revenues from our 12 cemeteries and crematoria (Memorial Parks and Gardens) was \$51.2 million, 3% above our forecasts and up 6 % from \$48.4 million in 2003. This 6% growth compared to 2003 can be attributed to an increase in cremation and burial services including prepaid services and adjustments in pricing.

Despite strong competition, InvoCare’s market share showed a small increase. To date there has not been any material financial impact from the October 2004 opening of Macquarie Park crematorium, at North Ryde in Sydney. Further cremation competition is likely as the Catholic Cemeteries Board pursues the establishment of a crematorium within the Catholic section of Rookwood Cemetery. If established, the Company’s leased crematorium within the grounds of Rookwood Cemetery will be affected.



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Crypt construction delays and lower than expected deaths adversely affected revenue performance in the second half of the year.

Strategically the Company continues to focus on increasing the number of memorials from cremations within the cemeteries and crematoria locations where currently some 30% of cremations result in a memorial being placed at the location. Whilst there has been no material change in this rate in recent times, we are continuing to develop strategies and educate the public on the benefits of having a memorial.

A new survey is being introduced to send to client families who choose to have a memorial in one of our Memorial Parks or Gardens. From this survey we will be able to generate information similar to our client funeral surveys.

Our operations and family service staff play a key role in ensuring the Memorial Parks and Gardens continue to present themselves as beautiful and peaceful places for people to reflect. They all provide an invaluable function in ensuring a life, which is important to family and friends, is not forgotten. Our cemeteries and crematoria staff continues to set high levels of excellence and as such lead the industry.

PREPAID FUNERAL FUNDS

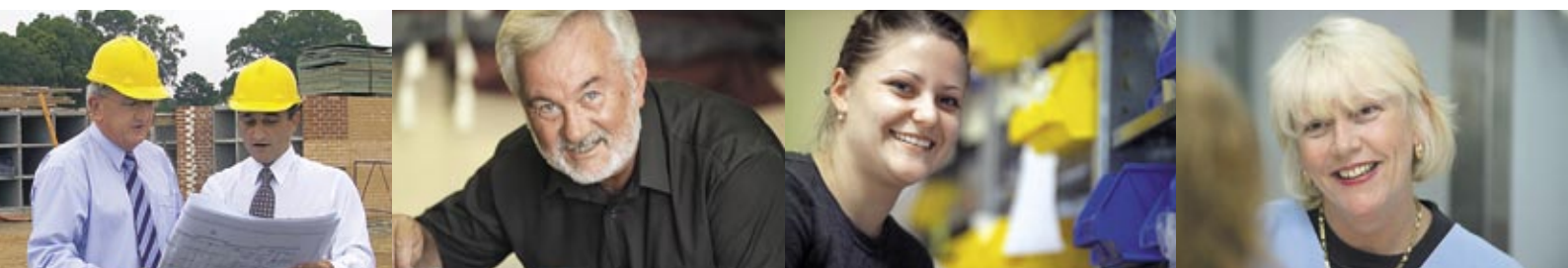
13% of the funerals the Company conducted in 2004 were prepaid. This figure is consistent with previous years. As at 31 December 2004 \$198.6 million was independently managed in trust funds, up 17% on the previous year. Gross returns for funds under management for the past year of 17.2% is an increase over the prior year of 229%. This gross return excludes investment management fees and administration fees which are currently at 1.9%.

During the year the investment bias has moved to where equities comprise 52% of the portfolio compared to 50% in the prior year.

This improved investment return has also contributed to an increase in funeral revenues as prepaid funerals are performed.

CASH FLOWS & ACQUISITIONS

There were no acquisitions in 2004. Unrealistic pricing expectations have inhibited any opportunities to date and we do not believe it likely that a significant acquisition will be completed in 2005. However we are still actively seeking opportunities for acquisitions.



Net cash flows were strong in the year assisted by proceeds from the sale of assets and lower than expected capital expenditure due to delays in gaining development approvals from Councils for major refurbishment works. This contributed to the improved debt reduction mentioned earlier.

During the year, 20% of our vehicle fleet was replaced in keeping with our vehicle management policy of an average vehicle life of 5 years.

As a consequence of the strong cash flow and lack of acquisition activity, the Company is currently reviewing its capital management program.

OVERVIEW OF OPERATIONS

Four non-strategic or non-performing funeral homes were sold in the past year at Ipswich (QLD), Burwood & Healesville (VIC) and Victor Harbor (SA) generating \$1.3 million in profit. Whilst the revenue and profit contribution from these locations was not material, a proportion of both should be retained as the Company retains a presence in the markets utilising other Company facilities in the areas. Further non-strategic property has been identified for divestment in 2005.

The Company continues to focus on the strategic importance and effective returns of its locations and in doing so has embarked on a long-term property plan for the Company, commencing with Sydney.

Key sites have also been identified for an upgrade in facilities. For example, our main operational centre in Western Australia at North Perth is being upgraded. In Queensland, work is nearing completion on a new condolence lounge and the upgrading of the Chapels at Albany Creek Memorial Park in Brisbane. Other upgrade works have been identified and are being scheduled for completion over for the next two years.

In order to enhance our key funeral home brands in particular, we are developing brand blue prints. This will also assist us with a direction for future growth of the brands. The Company has identified key segments of the market and continues to position its brands to cater for each segment.

Whilst the industry remains fragmented, the Company continues to face active competition in the markets in which it operates.

InvoCare continues working with the industry and other stakeholder groups as various state Governments review their legislation in respect of the industry. The majority of the focus in 2004 was on consumer protection, including minimum standards of service.

Importantly all of InvoCare's locations continue to foster relationships within the local communities in which they serve. These efforts are not just based on sponsorship, but often extend to volunteering time, facilities and assisting in raising funds. We value these local activities, because we view them as essential to participate at this level. Working with the local community aside from relationship building also helps to demystify the industry and reach many people at a time far less emotional than after the death of a loved one.

InvoCare continues to be committed to training and developing its employees with extensive 'learning and development' programs catering to key areas of the business. We now have a network of accredited trainers within the organisation who focus on delivering programs, which ensure the Company sets the highest



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standards for the way its staff conduct themselves and service our client families. We are constantly developing these programs and will shortly also launch some computer based learning programs.

InvoCare's new financial system and funeral operating system have been successfully implemented on time and within budget. The resource utilisation system for our funeral operations is scheduled to be rolled out in the first half of this year. This will be followed by a new operating system for cemeteries and crematoria.

The Company has appointed two full time Occupational Health and Safety (OHS) personnel who have undertaken audits across Australia. They are working with internal and external resources to develop ways to eliminate or minimise risks within the workplace in a structured manner. Currently we are reviewing our manual handling procedures, an area identified as a major area of potential injury and lost working days.

LOOKING AHEAD

Since InvoCare listed in December 2003, we have successfully exceeded our forecasts.

We have shown the capacity to grow organically leveraging from our strong brands, professional service and wide network of locations and thus provide sustainable growth.

Whilst InvoCare's results will always be affected by the number of deaths, our positioning in the market and the strategies we are putting in place position the Company well for the future.

Finally I would like to take this opportunity to thank my management team and all the dedicated employees of InvoCare who have worked so hard to generate this performance.



Richard Davis
Chief Executive Officer