

CEO review

Underpinning the 2007 result is the Company's strong, reliable business model and a committed, professional workforce focussed on service excellence.



Richard Davis

Overall, InvoCare performed strongly again in 2007 with profit after tax increasing 14.6% to \$27.6 million. The performance reflected the increase in the number of deaths, strong average sales performance and the impact of acquisitions completed in 2006 and in early 2007. The financial highlights on page 2 summarise the financial performance across the key parameters.

Underpinning the 2007 result is the Company's strong, reliable business model and a committed, professional workforce focussed on service excellence.

Strategically, our focus remained unchanged, concentrating on improving service, developing our people and our brands, upgrading our facilities, improving memorialisation, pursuing acquisitions and opening new locations, maintaining the strong prepaid funeral fund performance, managing our asset portfolio and controlling costs and capital.

Financial Overview

For the year ended 31 December 2007, overall sales revenues increased 16.7% to \$223.9 million. The estimated number of deaths was higher than expected, with Australian deaths increasing by an estimated 4.4% in the markets where InvoCare operates. As anticipated, overall average sale per service improved as mix reverted back to norm after a disappointing experience last year.

Operating margins (earnings before depreciation, amortisation and tax/sales revenues) increased to 26.3%, from 25.6% in 2006, largely as a consequence of the higher margins achieved from the Company's Singapore operations. Profit after tax generated from sale of non-core assets amounted to \$0.6 million, compared to \$4.9 million in the prior year. No assets were impaired, unlike the prior year where the Company's results were adversely affected by a \$2.4 million after tax writedown.

Basic earnings per share amounted to 27.6 cents, representing an 11.7% improvement on the result achieved in 2006.

The strong financial performance enabled the Board to declare a final fully franked dividend of 12.5 cents per share. The total dividends paid or payable for the year amounted to 22.5 cents per share fully franked, representing an increase of 15.4% on these paid or declared in the prior year.

These dividends, together with the growth in the share price during the year, have delivered strong returns for shareholders, with total shareholder return for the year amounting to 30%.



Funeral Homes

Sales revenues from InvoCare's 152 funeral homes amounted to \$173.2 million, 18.4% above the result in 2006. Funeral services provided increased 11.7%, of which 6.9% related to acquisitions, whilst deaths in the Australian markets where InvoCare operates were estimated to have increased 4.4%.

Management estimates Australian overall market share to have increased from 30.1% to 30.7% in the markets where InvoCare operates, largely as a consequence of acquisitions. Funeral acquisitions have performed in line with or above expectations, resulting in additional purchase price proceeds being paid as a consequence of contractual "earn out" provisions.

Major brand awareness remained strong throughout the year, with the new Guardian umbrella brand in Sydney increasing its awareness by 32% to 46%. The alignment of InvoCare's major brands to different consumer segments continues as the Company endeavours to meet the needs of consumers.

Nine new funeral locations were opened during the year, with a further four to six scheduled for opening in 2008. Revenues generated from new locations opened in 2006 and 2007 amounted to \$4.0 million, compared to \$1.2 million in the prior year.

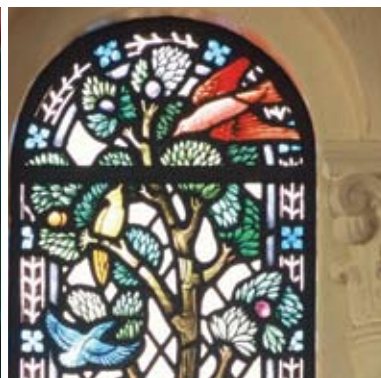
Client satisfaction remained high with 97% of InvoCare survey respondents indicating again a willingness to definitely or probably recommend an InvoCare provider to a third party if the need arose. Overall 99% of respondents continue to believe InvoCare meets or exceeds their expectations.



Cemeteries and Crematoria

Sales revenues from InvoCare's 12 cemeteries and crematoria amounted to \$57.3 million, representing a 10.6% improvement on 2006. The improvement reflects the increase in the number of deaths in InvoCare markets together with improvements in average sale of product and services, as a consequence of mix.

Management estimates overall market share to be stable notwithstanding increased competition in the markets where InvoCare operates, due to the increased investment in facilities over the last few years.



From left to right, top to bottom: Lake Macquarie Memorial Park, Ryhope, Rookwood Memorial Gardens and Crematorium, Rookwood

Facility upgrades continue in the Company's cemeteries and crematoria. The Company's investment in major crypt and mausoleum developments continued with the Forest Lawn Memorial Gardens project at Leppington, NSW being completed and the projects at Lakeside Memorial Gardens, Dapto, NSW and Pinegrove Memorial Gardens, Eastern Creek, NSW nearing completion. In total, \$1.8 million was invested into these crypt projects in 2007 with further funds committed in 2008.

Whilst there has been no shift in the rate of memorialisation for cremation in recent years, InvoCare maintains its community awareness programmes, educating the public on the benefits of having a memorial.

Pleasingly, 94% of InvoCare survey respondents indicated again a willingness to definitely or probably recommend an InvoCare provider to a third party if the need arose.

Prepaid Funeral Funds

13% of the Australian funerals InvoCare conducted in 2007 were prepaid, largely consistent with 2006. Whilst prepaid funeral redemptions exceeded new contracts by 2.1% it was a substantial improvement on the 19.1% deficit experienced in 2006. The improved performance is attributed to an increased focus on this aspect of the business with an expectation that new contracts will exceed redemptions in 2008.

As at 31 December 2007, \$272 million was independently managed in trust funds, an increase of 7.9% on that held at the end of 2006. Gross returns for funds under management for the past year amounted to 11.9%, in line with general market conditions. Management and administration fees for funds under management reduced 0.3% to 1.6% p.a.

Management estimates the surplus of the prepaid funeral funds under management amounted to \$56 million, where the surplus relates to the difference between the funds under management as at year end and the retail price that InvoCare would charge to provide those services at normal retail prices. This surplus will be realised over time as the prepaid funerals are delivered. The actual surplus realised will be dependent upon future investment returns until service delivery occurs.

Acquisitions, Net Debt and Cash Flows

Revenues attributable to acquisitions completed in 2006 and 2007 amounted to \$12.3 million, compared to \$2.5 million in the prior year.

Acquisitions completed during the year included Liberty Funerals (Sydney, NSW) in March and Chippers Funerals (Perth, WA) in December. Chippers is the third largest operator in the Perth region, operating from five locations.

Overall, net debt decreased 0.6% to \$145.6 million. Outlays for acquisitions amounting to \$8.5 million and capital expenditure of \$17.4 million were partially funded by the activation of the Company's Dividend Reinvestment Plan (DRP) that raised \$5.7 million, the exercise of employee options amounting to \$0.3 million and the proceeds from the sale of assets of \$4.6 million, of which \$3.2 million related to a deferred settlement on a property sold last year.

Operating cash flows before interest, financing costs and taxation improved 22.5% to \$62.0 million following an improvement in operating EBITDA of 19.9%.

In total, dividends amounting to \$15.7 million (excluding DRP proceeds) were paid during the year, compared to \$13.8 million in the prior year.

Overview of Operations

The Company continues its focus on the strategic importance and effective returns from its locations. No non-performing or non-strategic property assets were sold in 2007. However, InvoCare relocated a funeral home to leased premises from a property compulsorily acquired by a government agency. Sale of this property together with other assets generated an after tax profit of \$0.6 million, compared to \$4.9 million in the prior year. The revenues and profit contribution from these assets was not material. A property previously identified as being non-strategic and identified for sale has been retained and will be rebranded as a flagship location for Guardian in Sydney.

Capital expenditure for the next five years is expected to average \$12 million per annum, net of divestitures of non-strategic non-performing assets. However, the actual expenditure in any one year may materially differ from this amount due to the timing of development approvals. In 2008, capital expenditure of \$22.0 million is anticipated.

InvoCare continues working with the industry and other stakeholder groups as various state governments review their legislation in respect of the industry. As previously reported, the majority of the focus continues to be on protecting consumers.

From left to right, top to bottom:
Tweed Heads Memorial Gardens, Tweed Heads;
Forest Lawn Memorial Park, Leppington





From left to right, top to bottom:
Tweed Heads Memorial Gardens, Tweed
Heads; Lakeside Memorial Park, Dapto;
Pinegrove Memorial Park, Eastern Creek

Local community support continued throughout the year with both the Company and its staff actively participating. Support included financial assistance, provision of facilities and equipment, as well as staff volunteering their valuable personal time.

InvoCare continues to be committed to training and developing its employees with extensive “learning and development” programmes focussing on the key areas of the business. In 2007, the Company continued to upgrade its core training modules.

During the year, the Company introduced a Deferred Employee Share Plan, an important initiative aimed at aligning management interests to those of shareholders and the retention of key personnel. The offer was made to all regional managers and above. This initiative, together with the Exempt Employee Share Plan offered again in 2007, has enabled over 25% of InvoCare’s personnel to have equity in the business.

Looking Ahead

The Company’s ongoing commitment to service, its strong brands, its network of locations, its valuable prepaid funeral fund and its operating leverage position the Company well for sustainable growth.

As evidenced in recent years, the Company is well positioned to grow by way of acquisition both in this country and now internationally.

Whilst InvoCare’s results will continue to be affected by the number of deaths in any given period, InvoCare’s positioning in the markets where it operates, together with its strategic initiatives, place 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 achieve this result.

Richard Davis Chief Executive Officer