

# Directors' Report

The directors submit their report on the consolidated entity consisting of InvoCare Limited (the "Company") and the entities it controlled for the year ended 31 December 2007. InvoCare Limited and its controlled entities together are referred to as "InvoCare", the "Group" or the "consolidated entity" in this Directors' Report.

## Directors

Unless indicated otherwise, the following persons were directors of InvoCare Limited during the whole of the financial year and until the date of this report:

Ian Ferrier  
 Richard Davis  
 Christine Clifton  
 Roger Penman  
 Benjamin Chow  
 (appointed 22 February 2007)  
 Richard Fisher  
 Michael Grehan  
 (resigned 15 February 2007)

## Principal Activities

The Group is a leading private provider of services to the funeral industry in Australia and Singapore. There were no significant changes in the nature of these activities during the year.

## Significant Changes in the State of Affairs

There have been no significant changes in the state of the Group's affairs during the financial year.

## Operating Results

The consolidated profit of the consolidated entity after providing income tax and eliminating minority interest was \$27,554,000 (2006: \$24,047,000).

## Dividends

Dividends to ordinary shareholders of the Company have been paid or declared as follows:

	2007 \$'000	2006 \$'000
Interim ordinary dividend of 10.0 cents (2006: 8.0 cents) per fully paid share paid on 12 October 2007	9,991	7,797
Final ordinary dividend of 12.5 cents (2006: 11.5 cents) per fully paid share declared by directors on 21 February 2008 to be paid on 11 April 2008	12,536	11,404
Total ordinary dividends of 22.5 cents (2006: 19.5 cents)	22,527	19,201

All dividends are fully franked at the company tax rate of 30%.

The Dividend Reinvestment Plan (DRP), first activated for the 2006 interim dividend, was available for the 2007 interim dividend and \$7,535,955 (2006: \$4,603,879) was paid in cash and \$2,454,864 (2006: \$3,194,196) through issue of 379,139 (2006: 639,687) shares at \$6.47 (2006: \$4.99) per share via the DRP. The shortfall in the DRP take-up was not underwritten nor were DRP shares issued at a discount to the market price for dividends paid in 2007. The 2006 interim dividend was 100% underwritten and 922,421 shares at \$4.99 per share, a 2% discount to the market price, were issued to the underwriter.

The Dividend Reinvestment Plan will apply to the final 2007 dividend which is not being underwritten and no discount to the market price will apply. A broker has been appointed to acquire the DRP shares on market for transfer to shareholders electing to participate in the DRP.

## Review of Operations

Results highlights:

	2007 \$'000	2006 \$'000	Change \$'000	
<b>Sales revenue</b>				
Funerals	173,235	146,357	26,878	18.4%
Cemeteries and crematoria	57,295	51,785	5,510	10.6%
Intra-group sales	(6,612)	(6,210)	(402)	
Total sales revenue	223,918	191,932	31,986	16.7%
<b>Operating EBITDA</b>				
(excluding net asset sale gains and net impairment of non-current assets)	58,935	49,140	9,795	19.9%
Operating margin	26.3%	25.6%		0.7%
<b>Net profit after tax attributable to InvoCare Limited shareholders</b>	27,554	24,047	3,507	14.6%
<b>EPS</b>				
Basic earnings per share	27.6 cents	24.7 cents	2.9 cents	11.7%

Sales revenue increased 16.7% to \$223.9 million due to a higher number of deaths, higher average selling prices, new acquisitions and new locations.

The number of deaths in InvoCare's Australian funeral markets during 2007 was estimated to have increased by 4.4% on 2006, higher than the long-term annual growth trend of approximately 1% per annum.

Average selling prices increased by more than 6%, including an estimated 1.5% from the redemption of prepaid contract funds.

The 2007 results were favourably impacted by the full-year benefit of business acquisitions made in the second half of 2006, Drysdale Funerals in Queensland and Singapore Casket Company, and the acquisition of Liberty Funerals in Sydney in March 2007. In mid December 2007, InvoCare acquired Chippers funeral operations, the third largest funeral business in the Perth region of Western Australia. Together, these acquisitions contributed \$12.3 million in sales revenue and \$5.4 million in EBITDA to the Group's 2007 result.

Nine new funeral home locations were opened in 2007, adding to the eight opened in 2006, taking the total number of InvoCare funeral home locations across Australia to 151. The new location strategy continues to improve the penetration of InvoCare's key brands in existing and new markets.

InvoCare's share of the Australian markets in which it operates increased from approximately 30.1% to 30.7% in funerals, due to the impact of acquisitions, and was stable for cemeteries and crematoria. There was minor market share erosion in Singapore.

Operating costs generally increased in line with the growth in revenues.

Operating EBITDA improved 19.9% to \$58.9 million. The operating EBITDA margin on sales increased by 0.7% to 26.3%.

Operating cash flows increased by 30.3% to \$38.6 million, reflecting the good trading result and continued focus on working capital management. Capital expenditure during 2007 increased to \$17.4 million from \$9.8 million in 2006, representing the acceleration of strategic expenditure including facility upgrades and refurbishments.

Normalised profit after tax (that is, excluding the impact of net after tax gains and losses on sale or impairment of non-current assets) increased by 25.1% to \$27.1 million; a significant improvement on the \$21.6 million of the previous year.

Profit after tax attributable to InvoCare Limited shareholders increased by 14.6% to \$27.6 million. This increase was lower than achieved for normalised profit due to the significant impact of non-current asset sale gains and net impairment on the 2006 profit.

Following the good result, a fully franked final dividend of 12.5 cents per share (2006: 11.5 cents per share) has been declared taking the total ordinary dividends for 2007 to 22.5 cents, a 15.4% increase on 2006 (19.5 cents). The dividend payout ratio for the year was 81.8% (2006: 79.8%).

#### **Significant Events after the Balance Date**

There have been no significant events occurring after balance date which have significantly affected or may significantly affect either InvoCare's operations or the results of those operations or InvoCare's state of affairs in future financial years.

#### **Future Developments and Results**

InvoCare continues to pursue growth through acquisitions, new locations, investing in existing locations, ongoing operational improvements and favourable demographic changes.

The Group's performance is significantly dependent upon the number of deaths increasing in line with actuarial trend predictions in the markets in which InvoCare operates. In addition, results are impacted when monies are received from off balance sheet trusts upon delivery of prepaid services, in particular where the values of the assets in those trusts fluctuate and there is an investment bias to equities.

With the prevailing economic climate, plans for continued capital expenditure and the potential opportunities for further business acquisitions, no major capital management initiatives are planned for 2008.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

#### **Environmental Regulation and Performance**

InvoCare is committed to the protection of the environment, the health and safety of its employees, customers and the general public, as well as compliance with all applicable environmental laws, rules and regulations in the jurisdictions in which the consolidated entity operates its business. The consolidated entity is subject to environmental regulation in respect of its operations, including some regulations covering the disposal of mortuary and pathological waste and the storage of hazardous materials. InvoCare has appropriate risk management systems in place at its locations.

There have been no claims during the year and the directors believe InvoCare has complied with all relevant environmental regulations and holds all relevant licences.

#### **Information on Directors**

Details of the directors' qualifications and experience are set out on the following pages.

## Board of Directors

### *Mr Ian Ferrier* AM FCA

Chairman of the Board  
Chairman of Remuneration Committee  
Chairman of Nomination Committee  
Member of Risk Committee

Ian has held the position of Chairman of InvoCare Limited since 2001. He was the founder of Ferrier Hodgson and now is Chairman of Ferrier Green Krejci & Silvia. He is a Fellow of The Institute of Chartered Accountants in Australia. Ian has had over 40 years of experience in company corporate recovery and turnaround practice. He is also a director of a number of private and public companies. Ian is currently Chairman of InvoCare Limited, Energy One Limited and Australian Oil Company Limited and a director of Australian Vintage Limited, Goodman International Limited and Reckon Group Limited. He has significant experience in turnaround management, property and development, tourism, manufacturing, retail, hospitality and hotels, infrastructure and aviation and service industries.

### *Mr Richard Davis* BEC

Chief Executive Officer

Since 1995, Richard has held the position of Chief Executive Officer of InvoCare Limited. He is a director of Over Fifty Guardian Friendly Society Limited. In 1989, Richard was recruited to the position of Chief Financial Officer of Chase Corporation's funeral business and stayed on in this position when the business was acquired by Industrial Equity Limited, following which he became Chief Executive Officer. Prior to joining the funeral industry, Richard worked in venture capital and as an accounting partner of Bird Cameron. Richard holds a Bachelor of Economics from the University of Sydney.

### *Dr Christine (Tina) Clifton*

MB BS (Hons) BHA  
Non-executive Director  
Chairman of Risk Committee  
Member of Audit Committee  
Member of Nomination Committee

Tina Clifton is a registered medical practitioner. Tina has been a director of InvoCare Limited since 24 October 2003 and her other current directorships include The Hospitals Contribution Fund of Australia Limited (HCF) and Healthcare Australia. She is also a Councillor of the University of New South Wales. Prior to 2001, Tina held various positions in the public and private healthcare sectors including Chief Executive Officer of the Sisters of Charity Health Service in New South Wales and deputy Chief Executive Officer of the Northern Sydney Area Health Service. From 1980 to 1988, Tina was a general practitioner. Tina holds degrees in medicine and health administration and obtained a specialist qualification in medical administration.

### *Mr Roger Penman* BEC FCA FTIA

Non-executive Director  
Chairman of Audit Committee  
Member of Remuneration Committee  
Member of Nomination Committee

Roger Penman was appointed as a director of InvoCare Limited on 1 January 2005 and commenced his roles on the Audit Committee and Remuneration Committee on 28 February 2005. Roger has been a Principal of WHK Horwath Sydney since 1986. He is a Fellow of the Institute of Chartered Accountants and the Taxation Institute of Australia with over 30 years tax consulting and general business experience. Roger has extensive experience with mergers, acquisitions, complex taxation and other tax issues. He is also a specialist adviser to many professional practices on tax, accounting and general business matters.



Top, left to right: Ian Ferrier,  
Richard Davis, Tina Clifton  
Bottom, left to right: Roger Penman,  
Benjamin Chow, Richard Fisher



### *Mr Benjamin Chow* AO BE

Non-executive Director  
Member of Risk Committee (from 22 February 2007)  
Member of Nomination Committee  
(from 22 February 2007)

Benjamin Chow was appointed as a director of InvoCare Limited on 22 February 2007 and also became a member of the Risk Committee and the Nomination Committee on that date. Benjamin has worked continuously in the land development industry both in Australia and South East Asia since 1968, having immigrated to Australia in 1962. He chaired the Council for Multicultural Australia which assists the Australian Government implement its multicultural policies. He has previously served as President of the Australian Chinese Community Association of NSW, President of the Chinese Australian Forum of NSW and Vice-President of the Ethnic Communities Council of NSW. He is a member of the Council of the National Museum of Australia, a member of the Bond University Council, President of the Sydney University Nerve Research Foundation, a trustee of the Australian Chinese Charity Foundation and a director of Chain Reaction Foundation Ltd.

In January 2007, Benjamin was awarded an Officer of the Order of Australia for service to the community through intercultural activities to promote economic and employment opportunities and social interaction, including the establishment of Harmony Day.

### *Mr Richard Fisher* AM MEC LLB

Non-executive Director  
Member of Risk Committee  
Member of Audit Committee  
Member of Nomination Committee

Richard Fisher is General Counsel to The University of Sydney and is an Adjunct Professor in its Graduate School of Government. Richard is the immediate past Chairman of Partners at Blake Dawson Waldron and specialised in corporate law. He has been a director of InvoCare Limited since 24 October 2003. Richard is a former part-time Commissioner at the Australian Law Reform Commission and is a current International Consultant for the Asian Development Bank and Member of the Library Council of NSW. Richard holds a Master of Economics from the University of New England and a Bachelor of Laws from the University of Sydney.

*Mr Michael Grehan* resigned as a director of InvoCare Limited on 15 February 2007, having been appointed on 24 October 2003. He also resigned as Chief Operating Officer of InvoCare on 15 February 2007, having held that position since March 2000. In announcing his resignation, the Chairman acknowledged Mr Grehan's significant contribution to the business.

### **Company Secretary**

#### ***Mr Phillip Friery*** *BBus CA*

Phillip Friery was appointed Company Secretary on 12 January 2007. He joined the consolidated entity in 1994 as Accounting Manager responsible for financial reporting and taxation. Over subsequent years he has assumed greater responsibilities, including information systems and treasury, and was appointed Chief Financial Officer on 28 March 2007. Prior to joining the consolidated entity, Phillip spent approximately 19 years with Coopers & Lybrand (before its merger with Price Waterhouse) in external audit, technical advisory and financial management consulting roles. Phillip holds a Bachelor of Business from the New South Wales Institute of Technology (now University of Technology Sydney) and is a member of the Institute of Chartered Accountants in Australia.

***Mr Kenneth Mealey*** retired as Company Secretary on 12 January 2007. In making the announcement of Mr Mealey's retirement, the directors acknowledged and thanked Mr Mealey for his contribution since 1994 to the Company's success.

### **Meetings of Directors**

Details of the meetings attended by each director during the year ended 31 December 2007 are set out in the Corporate Governance Statement on page 34.

### **Retirement, Election and Continuation in Office of Directors**

In accordance with the Constitution of InvoCare Limited, at each Annual General Meeting the following directors must retire from office:

- one-third (or a number nearest one-third) of the number of directors, excluding from the number of directors the Managing Director (i.e. the Chief Executive Officer), who is exempt from retirement by rotation, and any other director appointed by the directors either to fill a casual vacancy or as an addition to the existing directors; and
- any other director who has held office for three years or more since last being elected; and
- any other director appointed to fill a casual vacancy or as an addition to the existing directors.

Christine Clifton and Roger Penman will retire by rotation as directors at the Annual General Meeting and, being eligible, offer themselves for re-election.

### **Corporate Governance**

The Directors' Report continues on the following page with the start of the Corporate Governance Statement.

## Corporate governance statement

InvoCare Limited (the “Company”) and the Board of Directors (the “Board”) are committed to achieving and demonstrating the highest standards of corporate governance. The Company and its controlled entities together are referred to as “InvoCare” or the “Group” in this statement.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council’s principles and recommendations, unless otherwise stated.

For further information on the corporate governance policies adopted by InvoCare Limited, refer to the Company’s website: [www.invocare.com.au](http://www.invocare.com.au)

InvoCare elected to adopt the updated Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council in August 2007. As a consequence, while the underlying intent of the principles and recommendations were in place for the whole financial year ended 31 December 2007, a number of modifications and enhancements were made upon adoption.

### *Principle 1 – Lay Solid Foundations for Management and Oversight*

#### **Functions of the Board and Senior Executives**

The Board of InvoCare Limited is responsible for guiding and monitoring the Group on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The responsibility for the operation and administration of the Group, including day to day management of the Group’s affairs and the implementation of the corporate strategy and policy initiatives, is delegated by the Board to the Chief Executive Officer (the “CEO”) and senior executives, being the Chief Operating Officer (the “COO”) and the Chief Financial Officer (the “CFO”), and other management. Delegations are set out in the Group’s delegations policy and are reviewed regularly. Delegations, within

defined authority limits, relate to various operational functions including areas such as expenditure and commitments, employee matters (e.g. recruitment, termination, remuneration, discipline, training, development, health and safety), pricing, branding, investor and media communications. The Board ensures that the senior executives and the management team are appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the senior executives.

In deciding which functions and activities the Board reserves to itself it is guided by the overarching principle that the Board is charged with strategic responsibility, along with a management oversight function, and that the executive management have an implementation function. In fulfilling these functions, the directors seek to enhance shareholder value and protect the interests of stakeholders.

All Board members have formal letters of appointment which clearly articulate the roles, responsibilities, expectations and remuneration of directors.

All employees, including the CEO and senior executives, have formal job descriptions. The level of seniority of the role determines whether a formally drafted contract of employment or a less complex letter of appointment is used to confirm employment. Regardless of type, all employment agreements clearly articulate duties and responsibilities but also rights and expectations. Standard letters of appointment were reviewed and updated during 2007 for all future appointments.

The Board Charter is available on the Company’s website: [www.invocare.com.au](http://www.invocare.com.au)

#### **Senior Executive Evaluation**

After the conclusion of each financial year the CEO evaluates and documents the performance of his direct reports, being the COO and CFO. The results of this evaluation are reviewed by the Remuneration Committee with specific focus on achievements against targeted key performance indicators. Also at this time, key performance indicator targets for the ensuing year are established. The Remuneration Committee and the Board also review and determine the COO and CFO remuneration for the ensuing year.

The Remuneration Committee evaluates the performance of the CEO against annual key performance indicators and reports to the Board its recommendations on performance appraisal and remuneration.

In addition to a review of monthly financial results, at least quarterly the Board monitors the key performance indicators for the Group which provides the opportunity to more regularly evaluate the performance of senior executives outside the annual review process.

When appointed, all new senior executives receive an induction appropriate to their experience, which is designed to ensure they can quickly and effectively participate in decision-making. The programme is also designed to ensure that the executive gains a good working knowledge of both the industry and the Group covering the financial position, strategies and operations. This induction programme also focusses on the internal policies and procedures with a particular emphasis on the respective roles of the Board and its committees and those functions delegated to management.

### *Principle 2 – Structure the Board to Add Value*

#### **Board Composition**

The Board currently comprises six directors, being five non-executive directors (including the Chairman) and one executive director, being the CEO. Any director appointed to fill a casual vacancy must stand for election by shareholders at the next Annual General Meeting. In addition, one-third of the non-executive directors, and any other director who has held office for three years or more since last being elected, must retire from office and, if eligible, may stand for re-election. The CEO is exempt from retirement by rotation and is not counted in determining the number of directors to retire by rotation.

The majority of the Board must be independent directors, one of whom is the Chairman. A director is deemed to be “independent” if independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement.

The Board has assessed, using the criteria set out in the ASX Corporate Governance Principles and Recommendations, the independence of non-executive directors in light of their interests and relationships and considers them all to be independent. The Company will provide immediate notification to the market where the independence status of a director changes.

## Corporate governance statement continued

The skills, experience and expertise relevant to the position of each director and their term of office are set out starting on page 30 of the Directors' Report.

### Meetings of Directors

During the year ended 31 December 2007, the number of meetings of the Board of Directors and of each Board Committee and the number of meetings attended by each of the directors are as follows:

	Board		Audit Committee		Remuneration Committee		Risk Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
<b>Independent</b>										
Ian Ferrier	9	9	2*	–	1	1	4	4	1	1
		Chair			Chair		Member		Chair	
Christine Clifton	9	9	5	5	1*	–	4	4	1	1
			Member				Chair		Member	
Roger Penman	8	9	5	5	1	1	1*	–	1	1
			Chair		Member				Member	
Benjamin Chow	7	8	1*	–	–	–	3	3	–	–
							Member		Member	
Richard Fisher	9	9	4	5	1*	–	3	4	1	1
			Member				Member		Member	
<b>Executive</b>										
Richard Davis	9	9	5*	–	1*	–	4*	–	1*	–
Michael Grehan	–	–	–	–	–	–	–	–	–	–

A = number of meetings attended.

B = number of meetings held during the time the director held office or was a member of the committee during the year.

\* = includes meetings attended as an invited guest of the committee where the director was not a member of the relevant committee.

The quorum for the Board and Board Committees is two, both of whom must be independent directors. Board Committees consist entirely of independent non-executive directors. The CEO may attend all Board Committee meetings by invitation and the COO and CFO attend Board and Committee meetings by invitation.

### Nomination Committee

The Nomination Committee, established in March 2006, critically reviews on an annual basis the corporate governance procedures of the Group and the composition and effectiveness of the Board.

The Committee currently consists of the five independent non-executive directors of the Board whose skills and experience cover finance and accounting, taxation, law, medicine and health administration, property development and community service with an emphasis on multiculturalism. The Committee is chaired by Ian Ferrier. The Committee believes that the Board has a healthy mix of skills to ensure the ongoing development and growth of the Group.

In addition to its role in proposing candidates for director appointment for consideration by the Board, the Nomination Committee reviews and advises the Board in relation to Chief Executive Officer and Board succession planning and advises on Board and Committees' performance.

The Committee Charter is available on the Company's website:

[www.invocare.com.au](http://www.invocare.com.au)

### Directors' Performance Evaluation

The Board, through its Nomination Committee, undertakes an annual performance review of the full Board, its Committees and of the Chairman. The Chairman performs individual appraisals of each director.

The evaluation process involves an assessment of Board and Committee performance by each director completing a confidential questionnaire. The questionnaire covers such matters as the role of the Board, the composition and structure of the Board and Committees, operation of the Board, Group behaviours and protocols and performance of the Board and Committees, and invites comments from each director.

The results of the questionnaire are aggregated and discussed by the Board as a basis for collegiate consideration of Board performance and opportunities for enhancement.

The individual appraisals between each director and the Chairman provide an opportunity for consideration of individual contributions, development plans and issues specific to the director.

Performance evaluation reviews were undertaken during 2007.

### Directors' Access to Independent Professional Advice and Company Information

To assist in the effective discharge of their duties, directors may, in consultation with the Chairman, seek independent legal or financial advice on their duties and responsibilities at the expense of the Company and, in due course, make all Board members aware of both instructions to advisers and the advice obtained.

All directors have the right of access to all relevant Company information and to seek information from the Company Secretary and other senior executives. They also have a right to other records of the Company subject to these not being sought for personal purposes.

All directors and former directors are entitled to inspect and copy the books of the Company for the purposes of legal proceedings including situations where the director is a party to proceedings, where the director proposes in good faith to bring proceedings and where a director has reason to believe proceedings will be brought against him or her. In the case of former directors, this right of access continues for a period of seven years after the person ceases to be a director.

Prior to each Board meeting, the Board is provided with management reports and information in a form, timeframe and quality that enables them to discharge their duties. If it considers this information to be insufficient to support informed decision-making, then they are entitled to request additional information prior to or at Board meetings.

#### **Directors' Induction**

When appointed to the Board, all new directors receive an induction appropriate to their experience, which is designed to quickly allow them to participate fully and productively in Board decision-making.

The induction programme covers the Group's structure and goals, financial, strategic, operational and risk management positions, the rights and duties of a director and the role and operation of the Board committees. The Nomination Committee is responsible for reviewing the effectiveness of the director induction programme. New directors are given an orientation regarding the business including corporate governance policies, all other corporate policies and procedures, committee structures and responsibilities and reporting procedures.

#### **Directors' Continuing Education**

Directors are expected to undertake continuing education both as regards the normal discharge of their formal director duties, as well as ongoing developments within the Group and its operating environment. Directors typically attend courses and seminars relevant to the effective discharge of their duties.

## *Principle 3 – Promote Ethical and Responsible Decision-making*

#### **Code of Conduct**

The Board, in recognition of the importance of ethical and responsible decision-making, has adopted a Code of Conduct for all employees and directors which outlines the standards of ethical behaviour and is essential to maintain the trust of all stakeholders and the wider community. This code also mandates the avoidance of conflicts of interest and requires high standards of personal integrity, objectivity and honesty in the dealings of all directors, executives and staff, providing detailed guidelines to ensure the highest standards are maintained.

InvoCare recognises that its clients may be vulnerable due to a recent bereavement and it requires all employees to be aware of their ethical and legal responsibilities. Accordingly, InvoCare requires all employees to behave according to this code, to maintain its reputation as a good corporate citizen. Such behaviours extend to areas such as confidentiality, Privacy Act obligations, communications with the media, occupational health and safety and drugs and alcohol.

This code is provided to all directors and employees as part of their induction process. It is subject to ongoing review and assessment to ensure it continues to be relevant to contemporary conditions.

The code is available on the Company's website: [www.invocare.com.au](http://www.invocare.com.au)

#### **Share Trading Policy**

The Company's share trading policy is designed to minimise the risk that InvoCare, its directors and its employees will breach the insider trading provisions of the Corporations Act or compromise confidence in InvoCare's practices in relation to securities trading. The policy prohibits directors and employees from trading in InvoCare securities when they are in possession of information not generally available to the investment community, and otherwise confines the opportunity for directors and employees to trade in InvoCare securities to certain limited periods.

This policy applies to all senior staff, particularly those, such as finance team members, who have access to information which is not generally available. In addition, it applies to all the associates of these individuals. The policy prohibits trading in the Company's shares except within narrow and specific windows when the Group believes the market is fully informed. There are limited procedural exceptions to the policy and in certain circumstances the Chairman has the ability to approve trading outside the policy prescriptions.

The share trading policy is available on the Company's website:

[www.invocare.com.au](http://www.invocare.com.au)

## *Principle 4 – Safeguard Integrity in Financial Reporting*

#### **Audit Committee**

The Audit Committee provides assistance to the Board in fulfilling its corporate governance, risk management and oversight responsibilities in relation to the Group's financial reporting, internal control structure, information management systems, interest rate and foreign currency risks and the internal and external audit functions.

It is the responsibility of the Committee to maintain free and open communication between the Committee, the external auditor, the internal auditor and management of the Group. Both the internal and external auditors have a direct line of communication to the Chairman of the Audit Committee.

The Audit Committee comprises three independent non-executive directors and is currently chaired by Roger Penman. Mr Penman is an FCA and brings a wealth of financial and taxation experience to the Committee. Other members are Christine Clifton and Richard Fisher.

The external auditor met with the Audit Committee and the Board of Directors twice during the year without management being present.

The Committee Charter is available on the Company's website:

[www.invocare.com.au](http://www.invocare.com.au)

## *Corporate governance statement continued*

### *Principle 5 – Make Timely and Balanced Disclosure*

The Company has appropriate mechanisms in place to ensure all investors are provided with material, timely, complete and accurate information affecting the Group's financial position, performance, ownership and governance.

The Chairman, CEO, CFO or Company Secretary have been nominated as responsible for communication with shareholders and the ASX. This includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Continuous disclosure obligations are well understood and upheld by the Board and senior executives. Formal and informal discussion and consideration of these obligations occur as and when the need arises.

The Group's shareholder communication strategy is designed to ensure that all relevant information, especially market sensitive information, is made available to all shareholders and other stakeholders as soon as possible. InvoCare's website is structured to ensure information is easily located and logically grouped. Those shareholders who have made the appropriate election receive email notification of all announcements.

The Continuous Disclosure Policy and Shareholder Communication Strategy are available on the Company's website: [www.invocare.com.au](http://www.invocare.com.au)

### *Principle 6 – Respect the Rights of Shareholders*

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Group's state of affairs.

The Company uses its website to complement the official release of material information to the market. Shareholders may elect to receive email alerts when Company announcements are made.

Notice of Annual General Meeting, half-year and annual results announcements and financial reports, investor presentations, press releases and other ASX announcements can be found on the Company's website: [www.invocare.com.au](http://www.invocare.com.au)

The Board encourages full participation of shareholders at the Annual General Meeting. It is Company policy for the external auditor to be requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. The Chairman of the meeting also allows a reasonable opportunity for shareholders to ask questions of the auditor regarding the audit and auditor's report.

The next Annual General Meeting is scheduled to be held at 11.00am on Friday, 23 May 2008 at The Westin Sydney, 1 Martin Place, Sydney.

Shareholders are also able to direct any questions relating to the Company's securities to the share registry, Link Market Services Limited.

The Shareholder Communication Strategy is available on the Company's website: [www.invocare.com.au](http://www.invocare.com.au)

### *Principle 7 – Recognise and Manage Risk*

The Board, through the Risk Committee and Audit Committee, reviews and oversees the Group's risk management systems.

#### **Risk Committee**

The Risk Committee determines the Group's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Risk Committee does not have responsibility in relation to strategic or financial (including information technology) risk management, which is the focus of InvoCare's Audit Committee.

Each senior executive, with input and assistance from their direct reports, identifies key risks for their areas of responsibility and function which are in turn aggregated into an overall corporate risk

register. Each risk is assessed and assigned an inherent risk rating. After considering the impact of management controls, a residual risk rating is determined for each risk. The risk register so compiled is reviewed and updated at least once each year by senior executives and their direct reports, or more frequently if new risks are identified or when incidents occur or mitigating controls change which warrant a reassessment of risk ratings.

Extracts of the risk register focussing on the risks with high and very high residual ratings are provided to the Risk Committee at each of its meetings, together with specific commentary or information on significant changes to the risks or the ratings.

The Committee is informed of any major incidents and the effectiveness of actions to mitigate the impact of risk events.

In addition, the Committee considers developments or improvements in risk management and controls, including the adequacy of insurance programmes.

In particular, the Committee reviews and monitors the Group's rolling three-year risk management plan which includes targets, timelines and status for the management of risks.

Separate records and registers are maintained for other more common or recurring risks, for example arising, from customer complaints and occupational health and safety issues. These are managed and reported to the Committee by the relevant in-house specialists.

In this context, the Committee monitors complaints handling and also has a strong focus on ensuring suitable work practices and employee learning and development programmes are developed and delivered.

Specific major risks or incidents are reported as and when they occur with the CEO and COO responsible for escalation to the Risk Committee and Board where necessary if the event occurs outside the regular cycle of Committee meetings.

The Risk Committee comprises four independent non-executive directors and is currently chaired by Christine Clifton. The other members are Ian Ferrier, Richard Fisher and Benjamin Chow.

The Risk Committee Charter is available on the Company's website:

[www.invocare.com.au](http://www.invocare.com.au)

### Internal Control

The Group maintains a register of delegated authorities which are designed to ensure that all transactions are approved at the appropriate level of management and by individuals who have no conflicts of interest in relation to the transaction.

All systems and processes are regularly reviewed to ensure that they contain adequate levels of checks and balances to safeguard the assets of the Company and ensure that all transactions are correctly and promptly recorded.

The internal audit function undertakes regular reviews, either with its own resources or through outsourcing specific projects, of all key business processes. In addition, the internal audit function is involved in reviewing all systems improvements and enhancements prior to live implementation to ensure an adequate level of internal control and accountability is maintained.

### Assurance

Prior to finalising the release of half-year and full-year results and reports the Board receives assurance from the CEO, CFO and COO in accordance with s295A of the *Corporations Act 2001*. These assurances also provide the Board with information in relation to internal control and other areas of risk. These officers receive similar assurance from the key financial and operational staff in relation to these matters.

## Principle 8 – Remunerate Fairly and Responsibly

### Remuneration Committee

InvoCare's remuneration policy ensures that remuneration packages properly reflect the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Remuneration Committee reviews and makes recommendations to the Board on senior executive remuneration and appointment and on overall staff remuneration and compensation policies.

When making recommendations, the Committee aims to design policies that attract and retain the executives needed to run InvoCare successfully and to motivate executives to pursue appropriate growth strategies while marrying performance with remuneration.

The Remuneration Committee comprises two independent non-executive directors, Ian Ferrier who chairs the committee and Roger Penman.

The Remuneration Committee Charter is available on the Company's website: [www.invocare.com.au](http://www.invocare.com.au)

### Remuneration Structure

Remuneration for senior executives typically comprises a package of fixed and performance-based components. The Committee may, from time to time, seek advice from special remuneration consulting groups so as to ensure that the Board remains informed of market trends and practices.

Non-executive directors are remunerated by way of directors' fees, which may be sacrificed by payment into superannuation plans or by allocation of ordinary shares. They do not participate in schemes designed for the remuneration of executives, and do not receive retirement benefits, bonus payments or incentive shares.

Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to personal and corporate performance, contribution to long-term growth, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses, access by invitation to the Deferred Employee Share Plan and fringe benefits.

The Remuneration Report is set out on pages 38 to 45.

The Directors' Report continues on the next page with the start of the Remuneration Report.

## Remuneration report

The remuneration report summarises the key compensation policies for the year ended 31 December 2007, highlights the link between remuneration and corporate performance and provides detailed information on the compensation for directors and other key management personnel.

The remuneration report is set out under the following main headings:

- A. Principles Used to Determine the Nature and Amount of Remuneration
- B. Details of Remuneration
- C. Service Agreements
- D. Share-based Compensation
- E. Additional Information.

The information provided under sections A to D includes remuneration disclosures required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the notes to the financial statements and have been audited. The information in section E is additional disclosure required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

### *A. Principles Used to Determine the Nature and Amount of Remuneration*

#### **Non-executive Directors Policy**

The Board's primary focus is on the long-term strategic direction and overall performance of the Group. Accordingly, non-executive director remuneration is not targeted to short-term results. Fees paid to non-executive directors are determined with the assistance of independent external advisers.

The remuneration policy is designed to:

- attract and retain competent and suitably qualified non-executive directors;
- motivate non-executive directors to achieve InvoCare's long-term strategic objectives; and
- align the interests of non-executive directors with the long-term interests of shareholders.

#### **Fee Pool and Other Fees**

Non-executive directors' base fees for services as directors are determined within an aggregate directors' fee pool limit, which is periodically approved by shareholders. At the date of this report, the pool limit is

\$500,000, being the amount approved by shareholders at the Annual General Meeting held on 25 May 2007. The shareholders will be asked to consider and if thought fit pass a resolution at the Annual General Meeting on 23 May 2008 to increase the pool limit to \$575,000.

This remuneration is to be divided among the non-executive directors in such proportion as the Board determines. During the 2007 financial year, annual fees for non-executive directors were \$145,000 for the Chairman of the Board and \$78,000 for each of the other three non-executive directors who held office for the full year. For the 2008 financial year, based upon an external review of non-executive director compensation which was commissioned by the Board Remuneration Committee, the fees are \$150,000 for the Chairman and \$87,500 for each of the other four non-executive directors.

The base fees exclude any remuneration determined by the directors where a director performs additional or special duties for the Company. If a director performs additional or special duties for the Company, they may be remunerated as determined by the directors and that remuneration can be in addition to the limit mentioned above. No fees for additional or special duties were paid to non-executive directors during the years ended 31 December 2007 and 31 December 2006.

Directors are entitled to be reimbursed for all reasonable costs and expenses incurred by them in the performance of their duties as directors.

#### **Equity Participation**

Non-executive directors may receive options as part of their remuneration, subject only to shareholder approval. No options are held by any non-executive director at the date of this report.

Non-executive directors may participate in the Company's Deferred Employee Share Plan on a fee sacrifice basis. No shares have been issued or allocated to non-executive directors under the Deferred Employee Share Plan.

#### **Retiring Allowances**

No retiring allowances are paid to non-executive directors.

#### **Superannuation**

Where relevant, fees paid to non-executive directors are inclusive of any superannuation guarantee charge and, at the discretion of each non-executive director, may be paid into superannuation funds.

#### **Executive Directors and Management Policy**

The guiding principle underlying InvoCare's executive remuneration philosophy is to ensure rewards are fair and reasonable, having regard to both internal and external relativities, and appropriately balanced between fixed and variable components and that all variable components are commensurate with performance and results delivered.

InvoCare's remuneration policy is that:

- for each role, the balance between fixed and variable components should reflect market conditions;
- individual objectives should reflect the need for sustainable outcomes;
- all variable pay should be tightly linked to measurable personal and business group performance; and
- total compensation should be market competitive.

#### **Approval**

The Board Remuneration Committee makes recommendations to the Board of Directors in relation to the remuneration of the Chief Executive Officer (CEO).

The CEO recommends, and the Remuneration Committee reviews for the approval of the Board of Directors, remuneration of all other key management personnel within a defined budget, approved by the Board of Directors.

The key management personnel determine the remuneration of other senior management, within a defined budget approved by the Board of Directors.

#### **Remuneration Structure**

InvoCare's compensation structure aims to provide a balance of fixed and variable remuneration components. Variable components are tied to the performance of the Group and the individual and are entirely at risk.

The compensation of the Chief Executive Officer and other key management personnel and other staff members is comprised of payments and/or allocations under the following categories:

- short-term employee benefits which include cash salary (fixed), short-term cash bonuses (variable), annual leave (fixed), non-monetary benefits (fixed) and other incidental benefits (fixed);
- post employment benefits comprising superannuation contributions (fixed);

- long-term employee benefits including incentives (variable) and long service leave (fixed); and
- termination benefits as defined in individual employment contracts and as required by law (fixed).

#### Short-term Employee Benefits

Short-term employee benefits comprise:

*Cash salary* – executives are offered a market competitive base cash salary. The cash salary is reviewed on a regular basis against market data for comparable positions provided by independent remuneration consultants and selected survey data. Adjustments to base salary are made based on increases in role scope or responsibility, pay position relative to market and relative performance in the role.

*Short-term bonuses* – short-term incentives (STI) are awarded for achievement of predetermined financial and non-financial objectives. For key management personnel, the target criteria and possible bonus levels are defined each year by the non-executive directors and the Remuneration Committee. For other executives, the key management personnel determine the objectives and reward levels within the constraints of a Board approved budget.

- Each executive has a target STI opportunity depending on the accountabilities of the role and impact on performance. For example, amongst the range of mainly quantitative financial performance measures are EBITDA targets, income accretion targets, operating cost control targets, debt cost reduction targets, qualitative measures of customer satisfaction, debtor days outstanding targets and other key strategic non-financial measures linked to drivers of performance in future reporting periods.

- The target criteria for key management personnel are more heavily weighted to overall Group financial performance (e.g. EBITDA). Thus, the variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan.
- The base target STI opportunity varies for each executive, but is generally no higher than 50% of base cash salary, except for certain sales related staff where a greater portion of their compensation is at risk, being more weighted to achievement of sales targets.
- The bonuses are generally payable in the first quarter of each year, based on performance for the previous year ended 31 December.

*Non-monetary benefits* – include provision of fully maintained cars and car parking spaces.

*Other incidental benefits*

- Payment of death and total and permanent disablement and salary continuance insurance premiums for senior executive staff; and
- Nominal discounts for funerals of immediate family members.

#### Post Employment Benefits

InvoCare provides retirement and superannuation benefits for its employees, including senior executives, through the InvoCare Australia Pty Limited Superannuation Fund or a complying superannuation plan at the choice of the employee. The InvoCare Australia Pty Limited Superannuation Fund provides accumulation benefits based on employer and employee contributions and plan earnings.

#### Long-term Employee Benefits

InvoCare's long-term incentive policy aims to create a balance between corporate performance and retention of key executives.

Prior to the Initial Public Offering of InvoCare, equity compensation in the form of share options had been provided to selected executives. No further options have been issued. Details are set out on page 42 under "Share-based Compensation – Options".

During 2007, a share-based compensation scheme, the InvoCare Deferred Employee Share Plan, was introduced under which the Board may offer selected senior executives and other managers incentive shares ("LTI shares"), subject to performance and/or continuous service conditions. If employment is terminated, for any reason, prior to the vesting date, or if the performance and service conditions are not met, any unvested LTI shares will be forfeited.

For the offers made in 2007, all LTI shares will vest in three equal tranches in February of each of 2009, 2010 and 2011. The LTI shares are held in trust until vesting and the employees will be entitled to any dividends paid in respect of unforfeited shares. Upon vesting, the employee has the discretion to leave the shares in the plan, withdraw or sell any number of them.

Performance conditions apply to senior managers who have an important strategic role impacting InvoCare's financial performance and relate to compound earnings per share growth. The 2007 LTI shares will vest in accordance with the following table:

Earnings per Share (EPS) growth p.a. compound effective from 1 January 2007	< 8%	8% to 9%	9% to 10%	10% to 11%	11% to 12%	> 12%
Number of LTI shares that will vest	nil	50% + 0.5% for each 0.1% EPS	55% + 1% for each 0.1% EPS	65% + 1.5% for each 0.1% EPS	80% + 2% for each 0.1% EPS	100%

The performance conditions for LTI shares were selected following independent advice and analysis of:

- broker analysis and forecasts for InvoCare;
- historic and forecast EPS growth in the ASX/S&P 200; and
- InvoCare's own earnings forecasts.

If the EPS performance conditions are not met at the vesting date, the LTI shares remain available until February 2012, based on the last available full measurement year ending 31 December 2011.

## *Remuneration report continued*

To receive 100% of the LTI shares allocated, the senior executive or manager must remain employed for four years to February 2011, and if subject to performance conditions, InvoCare's compound EPS growth must exceed 12% per annum.

Future offers of LTI shares may be made at the discretion of the Board and the service and performance conditions for any future offers may vary from those applying to the 2007 LTI share offers.

Further details of LTI shares are set out on page 45 under "Share-based Compensation – Shares".

All employees are entitled to statutory long service leave.

### **Termination Benefits**

Termination benefits are provided in the respective individual contracts of employment, details of which for key management personnel are set out in Section C. Service Agreements.

## *B. Details of Remuneration*

Unless indicated otherwise, the following persons were the key management personnel of InvoCare during the whole of the financial years ended 31 December 2007 and 31 December 2006:

### **Executive Directors**

Richard Davis – Chief Executive Officer

Michael Grehan – Chief Operating Officer (resigned 15 February 2007)

### **Non-executive Directors**

Ian Ferrier (Chairman)

Christine Clifton

Roger Penman

Richard Fisher

Benjamin Chow

(appointed 22 February 2007)

Senior executives (who are also included in the category of the five highest paid executives):

- Andrew Smith was appointed Chief Operating Officer with effect from 28 March 2007, previously having been Chief Financial Officer from 16 January 2006; and
- Phillip Friery was appointed Company Secretary on 12 January 2007 and Chief Financial Officer on 28 March 2007, having been an employee of the Group since 12 December 1994.

On 12 January 2007, Kenneth Mealey resigned as Company Secretary.

Other executives who are also included in the category of the five highest paid executives but who are not considered key management personnel (as the term is defined in the relevant legislative instrument governing remuneration disclosures in this report) are:

- Armen Mikaelian – General Manager, Cemeteries & Crematoria;
- John Fowler – General Manager Victoria, Funerals Division, and
- Damian Hiser – formerly General Manager NSW, Funerals Division.

Armen Mikaelian was promoted to the above position on 1 January 2005, having been with InvoCare since 1990 in various capacities.

John Fowler has held general manager positions with InvoCare since May 1995, having been employed in the industry for over 32 years and by InvoCare since 1994 when it acquired the Le Pine funeral businesses in Victoria.

Damian Hiser resigned effective 28 September 2007 and was replaced by Greg Bisset who joined the Group on 15 January 2008.

All key management personnel (other than non-executive directors), other executives and staff are employed by InvoCare Australia Pty Limited, a wholly-owned controlled entity of InvoCare Limited.

Details of the remuneration of the directors of InvoCare Limited, other key management personnel of the consolidated entity and other executives in the category of the five highest paid executives but who are not other key management personnel of the Group are set out in the tables on the following page.

The cash bonuses and long-term share-based incentives are dependent on the satisfaction of the performance conditions as set out in the information on short-term employment benefits. All other elements of remuneration are not directly related to performance.

## *C. Service Agreements*

Remuneration and other terms of employment for the Chief Executive Officer, Richard Davis, were formalised in a service agreement dated 8 May 2001 with an initial term of two years, renewable each year for a further 12 months at the discretion of the Board of Directors.

The agreement provides for the provision of salary, short-term performance-related cash bonuses, superannuation and other benefits. The Remuneration Committee reviews the base salary and short-term incentives annually. Termination may be effected with either six months' notice or by payment of six months' remuneration. In the event of termination, the agreement provides normal commercial restraint conditions for a period of 12 months after termination. The agreement also provides for long-term performance incentives by the grant of options over unissued shares in InvoCare Limited on 8 May 2004. Details of the share options are set out in Section D. Share-based Compensation.

Remuneration and other terms of employment for the Chief Operating Officer, Andrew Smith, were formalised in service agreements executed in March 2007 and December 2005 respectively. The agreements provide for provision of salary, short-term performance-related cash bonuses, long-term performance-related share-based bonuses, superannuation and other benefits. The Remuneration Committee reviews the base salary and bonus incentives annually. The term of employment is indefinite and termination may generally be effected with either six months' notice or by payment of six months' remuneration. Details of the share-based remuneration are set out in Section D. Share-based Compensation.

Remuneration and other terms of employment for each of the other key management personnel and other senior managers are formalised in letters of appointment as varied from time to time, including through annual review of the base salary, short and long-term incentives. Each contract is for an indefinite term. One month's notice or payment in lieu of notice is generally required in the event of resignation. Termination benefits are limited to statutory leave entitlements, unless determined otherwise by the Remuneration Committee. The other key management personnel and certain other senior executives also participated in the Company's Employee Share Option Plan and options were granted to them in September 2003. Since that date, no further options have been granted. Details of these options are set out in Section D. Share-based Compensation. During 2007, the other key management personnel and certain other senior managers participated in the Group's Deferred Employee Share Plan. Details of this plan are set out in Section D. Share-based Compensation. Remuneration details are as follows:

2007	Short-term employee benefits			Post employment benefits		Share-based payments		Total \$
	Cash salary or fee \$	Short-term cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Termination benefits \$	Options \$	Shares \$	
<b>Non-executive directors</b>								
Ian Ferrier	–	–	–	145,000	–	–	–	145,000
Christine Clifton	71,560	–	–	6,440	–	–	–	78,000
Roger Penman	78,000	–	–	–	–	–	–	78,000
Benjamin Chow	61,123	–	–	5,501	–	–	–	66,624
Richard Fisher	71,560	–	–	6,440	–	–	–	78,000
<b>Executive directors</b>								
Richard Davis	440,000	432,221	14,090	39,600	–	–	–	925,911
Michael Grehan	40,028	–	42,096	30,602	389,192	8,224	–	510,142
<b>Other key management personnel</b>								
Andrew Smith	355,045	174,150	22,864	31,953	–	–	85,732	669,744
Phillip Friery	250,000	147,500	17,515	22,500	–	1,495	33,911	472,921
Totals for each component	1,367,316	753,871	96,565	288,036	389,192	9,719	119,643	3,024,342
Totals by category		2,217,752		288,036	389,192	129,362		3,024,342
<b>Other executives in the category of the five highest paid executives but who are not key management personnel</b>								
Armen Mikaelian	170,000	186,430	11,484	31,078	–	2,392	25,433	426,817
John Fowler	139,828	70,000	46,155	45,320	–	748	17,140	319,191
Damian Hiser <sup>1</sup>	153,128	–	20,287	12,620	–	–	–	186,035

2006	Short-term employee benefits			Post employment benefits		Share-based payments		Total \$
	Cash salary or fee \$	Short-term cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Termination benefits \$	Options \$	Shares \$	
<b>Non-executive directors</b>								
Ian Ferrier	100,917	–	–	9,083	–	–	–	110,000
Christine Clifton	62,385	–	–	5,615	–	–	–	68,000
Roger Penman	68,000	–	–	–	–	–	–	68,000
Richard Fisher	–	–	–	68,000	–	–	–	68,000
<b>Executive directors</b>								
Richard Davis	400,000	327,611	31,207	36,000	–	–	–	794,818
Michael Grehan	300,000	180,000	20,856	27,000	–	56,568	–	584,424
<b>Other key management personnel</b>								
Andrew Smith	296,550	151,047	23,331	26,690	–	–	37,980	535,598
Kenneth Mealey	220,000	40,000	22,025	19,800	–	15,428	–	317,253
Phillip Friery	200,000	93,600	18,907	18,000	–	8,523	–	339,030
Totals for each component	1,647,852	792,258	116,326	210,188	–	80,519	37,980	2,885,123
Totals by category		2,556,436		210,188		118,499		2,885,123
<b>Other executives in the category of the five highest paid executives but who are not key management personnel</b>								
Armen Mikaelian	170,000	152,926	26,205	29,063	–	10,818	–	389,012
John Fowler	145,667	20,000	41,697	28,183	–	5,143	–	240,690

In accordance with Australian equivalents to International Financial Reporting Standards, only the fair value of options issued after 7 November 2002 has been recognised in the income statement and the balance sheet, whilst the amounts disclosed above relate to all options granted to key management personnel.

1. Damian Hiser resigned effective 28 September 2007 and the information disclosed above relates to the period from 1 January 2007 to 28 September 2007.

## *Remuneration report continued*

### *D. Share-based Compensation*

#### **Options**

The terms and conditions of each grant of options affecting remuneration in this reporting period are set out below. The options will not affect remuneration in future periods.

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
22 September 2003	1 May 2008	\$1.07	\$0.69	1/3 on 1 May 2005, 1/3 on 1 May 2006, 1/3 on 1 May 2007

The above options were granted to certain senior executives of the consolidated entity for no consideration under the Employee Share Option Plan, which was established prior to the Initial Public Offering of InvoCare Limited. The option grants made were at the discretion of, and determined by, the directors of the Company at that time. Except for the Chief Executive Officer and the non-executive directors, the key management personnel and selected other executives were granted options under the plan.

There have been no options granted under the plan since 22 September 2003.

The options granted carry no dividend or voting rights. When exercised, each option is convertible into one fully paid ordinary share of the Company. No amounts are unpaid on any shares issued on the exercise of options.

Details of options over unissued ordinary shares in InvoCare Limited provided as remuneration to each director, other key management personnel of the consolidated entity and other executives in the category of the five highest paid executives but who are not other key management personnel of the Group are set out below.

2007	Balance at start of year	Vested at start of year	Granted during year	Vested during year	Total exercised during year	Balance at end of year	Vested and exercisable at end of year
<b>Directors</b>							
Michael Grehan	140,060	–	–	140,060	140,060	–	–
<b>Key management personnel</b>							
Phillip Friery	25,466	–	–	25,466	25,466	–	–
<b>Other executives</b>							
Armen Mikaelian	40,745	–	–	40,745	40,745	–	–
John Fowler	12,733	–	–	12,733	12,733	–	–

All vested options have been exercised and at 31 December 2007 there were no options over unissued shares of InvoCare Limited.

2006	Balance at start of year	Vested at start of year	Granted during year	Vested during year	Total exercised during year	Balance at end of year	Vested and exercisable at end of year
<b>Directors</b>							
Michael Grehan	420,179	–	–	280,119	280,119	140,060	–
<b>Key management personnel</b>							
Kenneth Mealey	114,594	–	–	76,396	76,396	38,198	–
Phillip Friery	63,665	–	–	38,199	38,199	25,466	–
<b>Other executives</b>							
Armen Mikaelian	81,489	–	–	40,744	40,744	40,745	–
John Fowler	38,200	–	–	25,467	25,467	12,733	–

### Shares Provided on Exercise of Remuneration Options

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to, and the amounts paid per ordinary share by, each director of InvoCare Limited, other key management personnel and other executives in the category of the five highest paid executives but who are not other key management personnel of the Group are set out below.

	Amount paid per share		Number of ordinary shares issued on exercise of options during the year	
	2007	2006	2007	2006
<b>Directors</b>				
Michael Grehan	–	\$0.59	–	140,060
Michael Grehan	<b>\$1.07</b>	\$1.07	<b>140,060</b>	140,059
<b>Other key management personnel</b>				
Phillip Friery	–	\$0.59	–	12,734
Phillip Friery	<b>\$1.07</b>	\$1.07	<b>25,466</b>	25,466
<b>Other executives in the category of the five highest paid executives but who are not other key management personnel</b>				
Armen Mikaelian	<b>\$1.07</b>	\$1.07	<b>40,745</b>	40,744
John Fowler	–	\$0.59	–	12,734
John Fowler	<b>\$1.07</b>	\$1.07	<b>12,733</b>	12,733

No amounts are unpaid on any shares issued on the exercise of options. Refer to Section E. Additional Information.

### Shares

Under a service agreement, Andrew Smith may receive long-term incentive bonus remuneration in the form of ordinary shares in InvoCare Limited. The maximum bonus payable each year is one third of his combined base salary and superannuation and is linked to the profit performance of InvoCare. Shares to the value of the bonus will be purchased on behalf of the employee and one third will vest on each of the first, second and third anniversaries of their purchase on behalf of the employee. The employee will be entitled to any dividends paid in respect of the shares and any unvested shares will be forfeited upon termination of employment. Mr Smith's long-term incentive bonus in respect of 2007 has been determined by the Remuneration Committee as \$129,000 (2006: \$112,000). In accordance with the requirements of AASB 2 *Share-based Payment*, \$85,732 (2006: \$41,987) was expensed as share-based remuneration during the year ended 31 December 2007 in relation to the above long-term incentive bonus.

Other key management personnel and other executives in the category of the five highest paid executives but who are not other key management personnel received shares under the terms of the InvoCare Deferred Employee Share Plan. Details of the grants are set out below.

	Grant value \$	Expensed \$
<b>Other key management personnel</b>		
Phillip Friery	100,000	33,911
<b>Other executives in the category of the five highest paid executives but who are not other key management personnel</b>		
Armen Mikaelian	75,000	25,433
John Fowler	51,000	17,295

*Remuneration report continued*

The numbers of ordinary shares in the Company held during the year by each director of InvoCare Limited, other key management personnel and other executives in the category of the five highest paid executives but who are not other key management personnel of the Group are set out below.

	Balance at start of year	Received during year on exercise of options	Received during year on DESP grants	Other changes during year	Balance at end of year
<b>Non-executive Directors</b>					
Ian Ferrier	152,401	–	–	(50,000)	102,401
Christine Clifton	100,160	–	–	10,366	110,526
Roger Penman	–	–	–	–	–
Benjamin Chow	–	–	–	–	–
Richard Fisher	5,080	–	–	183	5,263
<b>Executive Directors</b>					
Richard Davis	1,299,733	–	–	–	1,299,733
<b>Other key management personnel</b>					
Andrew Smith	–	–	20,100	–	20,100
Phillip Friery	15,747	25,466	16,172	(5,000)	52,385
<b>Other executives in the category of the five highest paid executives but who are not other key management personnel</b>					
Armen Mikaelian	60,000	40,745	12,016	(20,000)	92,761
John Fowler	140,059	12,733	8,199	(22,792)	138,199

Michael Grehan, who resigned as an executive director on 15 February 2007, had 1,053,905 shares at the beginning of the year and at the time of his resignation exercised options over a further 140,060 shares.

*E. Additional Information*

**Principles Used to Determine the Nature and Amount of Remuneration: Relationship Between Remuneration and Company Performance**

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year. Since listing in December 2003, the four years' results of the Company and returns to shareholders are summarised below.

	2007	2006	2005	2004
Earnings per share	<b>27.6</b>	24.7	21.0	20.4
Dividends paid in year (cents per share):				
Interim for current year	<b>10.0</b>	8.0	7.0	6.4
Final for previous year	<b>11.5</b>	9.5	9.0	–
Special	–	–	10.5	–
Total dividends paid in the year	<b>21.5</b>	17.5	26.5	6.4
Share price – 1 January	<b>\$5.57</b>	\$4.19	\$3.35	\$2.14
Share price – 31 December	<b>\$7.01</b>	\$5.57	\$4.19	\$3.35
Total shareholder return (price movement plus cash dividends)	<b>\$1.66</b>	\$1.56	\$1.11	\$1.27
Total shareholder return as percentage of opening share price	<b>30%</b>	37%	33%	59%

### Cash and Share-based Bonuses

For each cash bonus and share-based bonus included in the above remuneration tables, the percentage of the available bonus that was payable for the financial year and the percentage that was forfeited because the person or the consolidated entity did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

Name	Cash bonus		Share-based bonus	
	Payable %	Forfeited %	Payable %	Forfeited %
Richard Davis	100	0	–	–
Andrew Smith	100	0	100	0
Phillip Friery	100	0	100	0
Armen Mikaelian	93	7	100	0
John Fowler	100	0	100	0
Damian Hiser	0	100	0	100

### Share-based Compensation – Options

Further details relating to options are set out below:

	A	B	C	D	E
	Remuneration consisting of options %	Value at grant date \$	Value at exercise date \$	Value at lapse date \$	Total of columns B to D \$
Phillip Friery	0.3	–	128,858	–	128,858
Armen Mikaelian	0.6	–	210,244	–	210,244
John Fowler	0.2	–	62,392	–	62,392

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the year.

B = The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

### Share-based Compensation – Shares

One third of shares granted in respect of long-term share-based incentives will vest on each of the second, third and fourth anniversaries of the share grant dates. The value of the shares will be expensed over the periods from grant to vesting in accordance with AASB 2 Share-based Payment and is estimated as follows:

Financial years ending 31 December	Value of unvested shares to be expensed \$					
	2006	2007	2008	2009	2010	2011
Andrew Smith	41,987	85,732	69,858	39,284	14,234	1,720
Phillip Friery	–	33,911	33,911	21,090	9,754	1,333
Armen Mikaelian	–	25,433	25,433	15,818	7,316	1,000
John Fowler	–	17,295	17,140	10,660	4,930	674

### Loans to Directors and Executives

There are no loans to directors and executives.

### Share Options Granted to Directors and the Most Highly Remunerated Officers

There were no options over unissued ordinary shares of InvoCare Limited at 31 December 2007 nor were any options granted during or since the end of the financial year.

### Shares Issued on the Exercise of Options

The following ordinary shares of the Company were issued during the year ended 31 December 2007 on the exercise of options granted under the Employee Share Option Plan:

Date options granted	Issue price of shares	Number of shares issued
22 September 2003	\$1.07	313,228

The Directors' Report concludes on the following page.

**Indemnifying Officers or Auditor**

During the financial year, InvoCare paid a premium to insure directors and officers of the consolidated entity. The insurance policy specifically prohibits disclosure of the nature and liability covered and the amount of the premium paid.

**Proceedings on Behalf of the Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

**Non-audit Services**

The directors are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

The following fees for non-audit services were paid/payable to the external auditor (PricewaterhouseCoopers) during the year ended 31 December 2007:

	\$
Assurance services	21,163
Taxation services	129,975
Advisory services	13,900
Legal services (PricewaterhouseCoopers Legal)	6,000
<b>Total</b>	<b>171,038</b>

Legal fees related to advice in respect of the Group's tax sharing agreement and other commercial matters required in the ordinary course of business.

**Auditor's Independence Declaration**

The copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 47.

**Rounding of Amounts**

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars (where rounding is applicable) in accordance with that Class Order.

Signed in accordance with a resolution of the Board of Directors.



**Ian Ferrier**  
Director



**Richard Davis**  
Director

Dated this 28th day of March 2008.

# Auditor's Independence Declaration



**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

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As lead auditor for the audit of InvoCare Limited for the year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of InvoCare Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'John Feely', written over a light blue horizontal line.

**John Feely**  
Partner

PricewaterhouseCoopers

New York USA  
28 March 2008