

Group financial and operational review

Financial Highlights

	2007 \$m	2006 \$m	Change %	1st half 2007 \$m	1st half 2006 \$m	Change %	2nd half 2007 \$m	2nd half 2006 \$m	Change %
Sales revenues	223.9	191.9	16.7	105.4	91.0	15.9	118.5	101.0	17.4
Normalised operating EBITDA⁽ⁱ⁾	58.9	49.1	19.9	26.7	22.0	21.5	32.2	27.1	18.7
<i>Normalised operating EBITDA margin⁽ⁱⁱ⁾</i>	26.3%	25.6%	0.7	25.4%	24.2%	1.2	27.2%	26.9%	0.3
Depreciation and amortisation	(8.9)	(7.9)	13.8	(4.3)	(3.8)	12.4	(4.7)	(4.0)	15.2
Finance costs	(12.1)	(11.3)	7.4	(6.1)	(5.4)	12.6	(6.0)	(5.8)	2.7
Interest income	0.7	1.0	(33.1)	0.3	0.5	(32.5)	0.3	0.5	(33.7)
Income tax expense	(11.5)	(9.4)	22.6	(5.3)	(4.2)	26.8	(6.2)	(5.2)	19.2
<i>Effective tax rate</i>	29.8%	30.2%	(1.4)	31.7%	31.4%	0.7	28.3%	29.3%	(3.3)
Normalised profit after tax	27.1	21.6	25.1	11.4	9.1	25.4	15.7	12.6	24.9
<i>Normalised basic earnings per share</i>	27.2	22.2	22.5	11.4	9.4	21.3	15.7	12.9	21.7
	cents	cents		cents	cents		cents	cents	
Profit after tax on sale of assets	0.6	4.9	(88.3)	0.1	0.1	81.2	0.5	4.8	(91.0)
Profit after tax on net asset impairment	–	(2.4)	100.0	–	–	–	–	(2.4)	(100.0)
Minority interest	(0.1)	(0.1)	7.8	–	–	(21.4)	(0.1)	–	33.3
Profit after tax	27.6	24.0	14.6	11.5	9.1	26.1	16.1	14.9	7.5
Basic earnings per share	27.6	24.7	11.7	11.6	9.4	23.4	16.1	15.3	5.2
	cents	cents		cents	cents		cents	cents	

(i) EBITDA excluding asset sales and impairment.

(ii) EBITDA excluding asset sales and impairment/sales revenues.

Summary of Financial Performance

The Company increased normalised profit after tax for the year ended 31 December 2007 by 25.1% to \$27.1 million. Normalised basic EPS increased 22.5% to 27.2 cents per share. These results were underpinned by:

- a higher number of deaths in InvoCare's Australian markets;
- the contribution from funeral business acquisitions;
- average selling price improvements, including a greater contribution from prepaid funds under management;
- the opening of new funeral home locations; and
- continued focus on managing costs.

InvoCare's robust business model of pursuing organic and acquisition growth, service level improvements, operational efficiencies, favourable demographic changes and prudent capital management was once again proved in 2007.

With the solid 2007 results, the opportunity was taken to further invest in InvoCare's major assets, being its people, facilities and brands. The business model enables effective management of InvoCare's position and performance through variations and fluctuations in external and internal drivers.

Sales Revenue

Sales revenue for the full year increased by \$32.0 million, or 16.7%, to \$223.9 million.

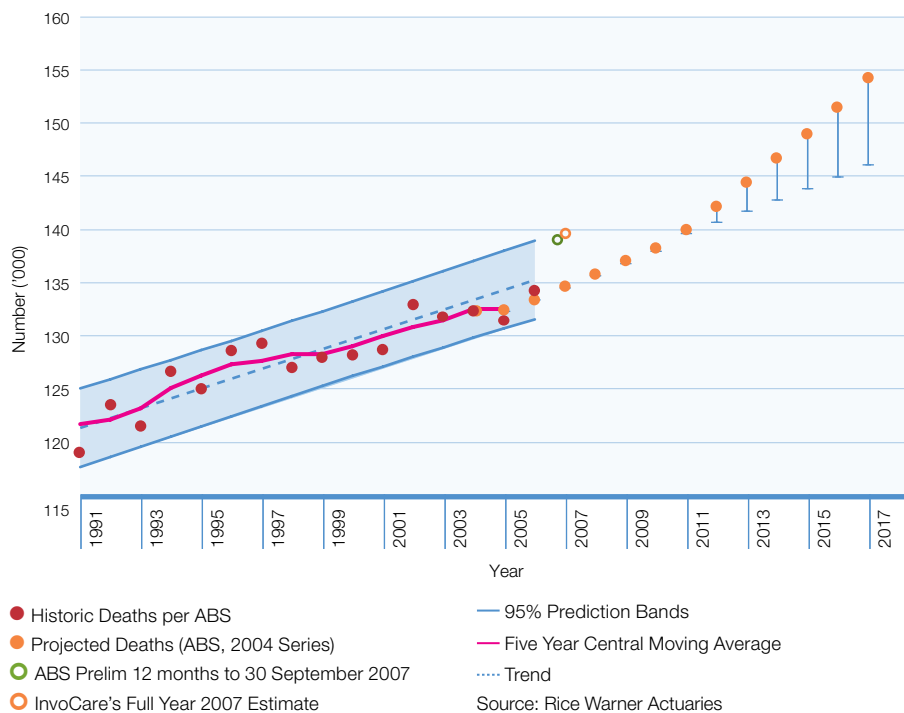
For both 2007 and the 2006 comparatives, sales have been presented inclusive of funeral disbursements, such as press notices, cemetery and crematorium fees, clergy offerings and doctors' fees, which are invoiced to funeral customers. In previous periods, funeral disbursements were netted against invoiced sales with the result that sales were reported net of disbursements. There has been no change in revenue recognition policies and funeral sales revenue is still recorded only when a service is performed. However, the change in presentation better reflects the commercial substance of sales to funeral customers.

Funeral sales revenue increased by \$28.9 million, or 18.4%, to \$173.2 million. Comparable funeral operations, which include new locations, generated an additional \$17.1 million or 11.9%, increasing comparable sales revenue to \$160.9 million for the year. The number of funeral services performed increased by 4.8%, contributing \$7.3 million to the sales increase.

At the time of announcing InvoCare's full-year results on 21 February 2008, management estimated the number of deaths in 2007 in InvoCare's markets increased by 4.4%, suggesting InvoCare's market share attributable to comparable operations was at least steady, if not marginally improved. On 19 March 2008, the Australian Bureau of Statistics (ABS) released preliminary Australian death numbers for the third quarter of 2007. The latest data released by ABS is not in sufficient detail to determine deaths in each InvoCare market. However, the preliminary ABS data for Australia shows an increasing trend in the number of deaths during 2007 compared to 2006, which is not inconsistent with InvoCare's estimates. ABS has reported a preliminary 139,152 deaths across Australia in the 12 months to 30 September 2007, an increase of 4.3% on the reported 133,380 deaths in the corresponding year to 30 September 2006.

InvoCare's experience is that the increase in the number of deaths was more pronounced in the second half of 2007, when there was an estimated 7.0% increase in InvoCare's markets over the corresponding second half of 2006. The actual and predicted deaths are shown in the attached graph.

Actual and Projected Deaths



Average funeral sale price increases contributed \$9.7 million to the sales revenue increase, including an additional \$2.2 million upon redemption of prepaid funeral fund surpluses.

New funeral locations, eight opened in 2006 and nine in 2007, contributed \$4.0 million to funeral sales revenue. New locations are considered “comparable” because they may be opened in areas already serviced by an existing InvoCare funeral home, albeit trading under a different brand, and may service customers who might otherwise have used an existing nearby InvoCare location. Until such time as the incremental impact of new locations can be determined, new locations will be classified as comparable.

Acquired funeral businesses generated \$12.3 million sales revenue in 2007, contributing \$9.8 million to the funeral sales increase. The businesses acquired were Drysdale Funerals on the Queensland Sunshine Coast (July 2006), Singapore Casket Company (October 2006), Liberty Funerals in Sydney (March 2007) and Chippers Funerals with five locations in and near Perth in Western Australia (December 2007).

InvoCare's cemeteries and crematoria, which operate in New South Wales and Queensland, increased sales revenue by \$5.5 million, or 10.6%, to \$57.3 million. The higher sales were due to a combination of a 3.5% increase in the number of services, price increases, favourable product mix and the recognition of previously deferred revenue (for example, upon construction of crypts). The number of deaths in InvoCare's markets was estimated to have increased by 3.8%, indicating InvoCare's market share remained relatively stable.

Normalised Operating EBITDA

Normalised operating EBITDA increased by \$9.8 million, or 19.9%, to \$58.9 million. Normalised operating EBITDA margin also improved to 26.3% from 25.6% in the previous year.

In the first half of 2007, improved funeral average sales prices, the control of operating costs and the impact of Singapore Casket Company resulted in an improvement in operating EBITDA margins to 25.4%, compared to 24.2% in the corresponding first half of 2006.

Second half margins improved to 27.2% from 26.9% in the corresponding 2006 period. Costs continued to be well managed in the second half, although there were notable increases in human resource and marketing costs. In particular, personnel related costs increased due to additional headcount to support growth, increased investment in learning and development programmes, new operational staff uniforms and higher incentives (including through a deferred employee share plan) consistent with the strong financial performance. Advertising and marketing expenses were also increased to promote brands and prepaid funerals.

As mentioned above, to more closely align senior management and shareholder interests, during 2007 the Board offered long-term incentive (LTI) shares under the InvoCare Deferred Employee Share Plan to selected senior managers who have an important strategic role impacting InvoCare's financial performance. The shares are subject to continuous service conditions and for approximately 12 senior managers also performance conditions. To receive 100% of the LTI shares allocated, the 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.

Employee related costs, which represent approximately 40% of all operating costs, increased 15.0% to \$66.7 million. The ratio of these costs to sales was 29.8%, compared to 30.2% in 2006. Comparable employment costs (that is, excluding the impact of acquisitions) increased 12.2% to \$64.5 million. The ratio of comparable employment costs to sales revenue remained fairly constant with a small decline to 30.5%, from 30.4% in 2006.

Finished goods and consumables used in 2007, which represent approximately 17% of all operating costs, increased 18.9% to \$28.0 million. The finished goods and consumables expense to sales revenue ratio was 12.5%, compared to 12.3% in 2006. On a comparable business basis, the ratio was 12.4%, compared to 12.2% in 2006. The ratio movements are due primarily to sales mix.

Occupancy costs for 2007, which represent approximately 8% of all operating costs, increased 12.4% to \$13.3 million. The increase was primarily due to acquisitions and newly opened leased funeral locations. Comparable business occupancy costs increased 9.0% to \$12.8 million. Despite the time lag required to establish new locations and achieve volume potential, the ratio of occupancy costs to sales declined only marginally to 6.1% from 6.2% in 2006.

Advertising and promotion expenses for 2007, which represent approximately 4% of all operating costs, increased \$1.6 million, or 29.6%, to \$6.9 million. Comparable business advertising and promotion expenses increased \$1.3 million, or 24.1%, to \$6.5 million. The ratio of these expenses to sales revenue increased to 3.1%, from 2.8% in 2006. As explained above, the increased expenditure was incurred to continue the development of InvoCare's brands and promote prepaid funerals. The Guardian brand in the Sydney market now ranks third in consumer awareness research, behind InvoCare's White Lady and Simplicity brands.

Motor vehicle costs for 2007, which represent approximately 3% of all operating costs, increased 15.5% to \$5.0 million. Business growth and increased service numbers were the main reasons for the increase. In comparable businesses, the increase was 12.1% to \$4.9 million and the ratio of motor vehicle costs to sales was maintained at 2.3%.

Other operating expenses for 2007, which represent approximately 7% of all operating costs, increased 9.0% overall and 4.6% in comparable operations.

Acquisitions and New Locations

Overall, business acquisitions made since ASX listing in December 2003, including Ann Wilson Funerals which was acquired in December 2005, have performed well and at least according to plan. The 2007 results, in particular the first half results, were favourably impacted by acquisitions made in 2006 and 2007. These new acquisitions contributed \$12.3 million to sales revenue and \$5.4 million to EBITDA.

The main contributor was Singapore Casket Company, Singapore's leading funeral provider, which has an estimated 10% market share, strong brand awareness and good margins secured by a substantial freehold property. Sales revenue in 2007 was \$7.4 million and EBITDA \$3.7 million.

Drysdale Funerals contributed \$2.5 million to 2007 sales revenue. Liberty Funerals generated sales of \$2.3 million since acquisition at the beginning of March 2007. These acquisitions contributed EBITDA of \$1.6 million in 2007.

InvoCare announced when releasing its 2007 results that it had successfully completed the purchase of the Chippers funeral business, the third largest funeral operator in the Perth region of Western Australia. Chippers operates from five locations. Its 2007 sales revenue and EBITDA were estimated at \$5.0 million and \$0.6 million respectively. From the effective acquisition date in mid December 2007, Chippers contributed \$0.2 million to InvoCare's 2007 sales revenue. In a related transaction, InvoCare also secured the balance of shares not already owned in Oakwood Funerals and negotiated a service agreement with Don Chipper to manage the combined Chipper and Oakwood funeral operations. Don Chipper has been managing InvoCare's Oakwood Funerals since 1998 and had previously been part owner and operator of Chippers.

Nine new Australian funeral locations (leased shop fronts) were opened in 2007, adding to the eight opened in 2006, strategically located in markets where InvoCare is currently under-represented. A further two locations were opened in January 2008 and more are planned for 2008, consistent with the stated objective of opening four to six new locations each year over the next few years. It can take several years for a new location to achieve InvoCare's operating margin. In addition, as more new locations are opened, including by expansion of InvoCare's funeral brands into pre-existing markets, the contribution made by these new locations may not be as high as in new markets. However, this new location and branding strategy is expected to create economies of scale in supporting and promoting the brands, increase brand awareness in the communities and generate increased sales by those brands.

Asset Sales

Unlike 2006, there were no major asset sales in 2007. Gains on asset sales in 2007, before income tax, were \$0.8 million, compared to \$7.0 million in 2006. However, sales proceeds received during the year included deferred consideration of \$3.2 million in accordance with a 2006 property sale agreement. The performance of individual property assets is monitored and if hurdle rates are not achieved, from time to time property sales may occur or leases may not be extended.

After reassessment of markets and business priorities, two leased locations were closed during the year and a funeral home property, previously identified for sale, was retained and will, after rebranding, become a flagship for Guardian Funerals in Sydney.

Asset Impairments, Depreciation and Amortisation

No non-current asset impairment writedowns were required in 2007, unlike the \$3.5 million net impairment loss in 2006. On transition to AIFRS, InvoCare impaired four Cash Generating Units (CGU), being cemetery and/or crematorium locations. The performance of these CGUs was reassessed as at 31 December 2006, resulting in reversal in 2006 of previous impairment losses at two sites, totalling \$2.4 million, and further impairment of \$5.9 million at two other sites. Using prudent assumptions, the two impaired sites were again reassessed at 31 December 2007, and no further impairment writedown was required in 2007. Reversal of previous impairment losses on these two sites may occur if results continue to improve.

Importantly, no other CGU, goodwill or other non-current asset impairment indicators existed at 31 December 2007.

Depreciation expense increased by \$1.0 million to \$8.1 million in 2007. Depreciation expense in comparable businesses increased by \$0.5 million to \$7.4 million, which reflects increased investment in property, plant and equipment.

Amortisation expense increased by \$0.1 million to \$0.9 million, primarily relating to the amortisation of acquired business brand names.

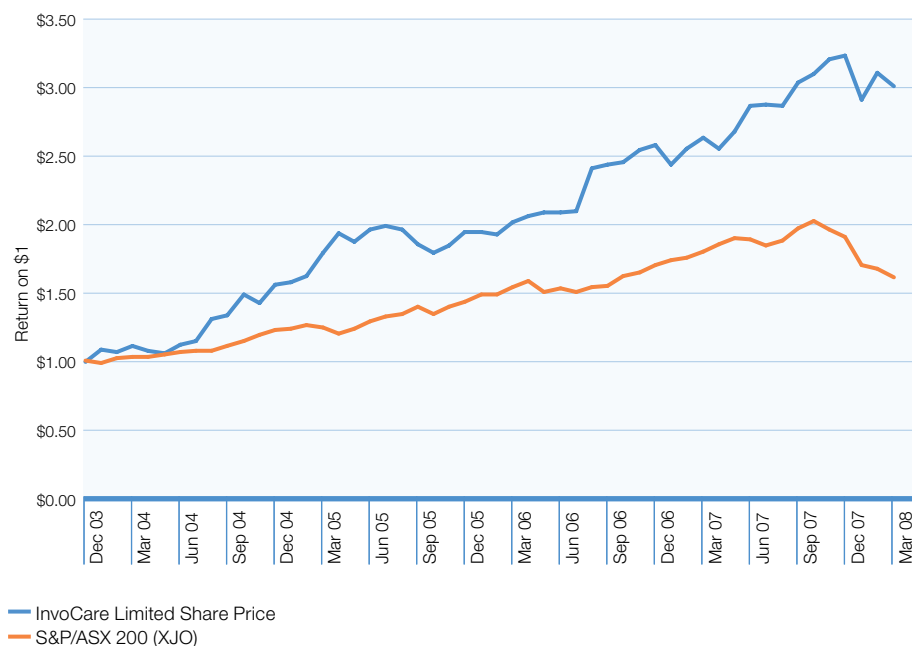
Capital Management

InvoCare's capital management objectives and strategies seek to maximise total shareholder returns, in terms of earnings per share, distributions and share price, while maintaining a capital structure with acceptable debt and financial risk.

Basic earnings per share since listing has increased from 18.1 cents in 2004, the first full year as a listed company, to 27.6 cents in 2007. This represents a compound annual growth rate of 15.1%.

An investment of \$1.00 in InvoCare at 31 December 2003 would have increased in value, excluding dividends, against the ASX/S&P index as shown in the following graph.

Return on \$1 – InvoCare Limited against S&P/ASX 200 Index



Since InvoCare's initial public offering in late 2003, the total shareholder return to 31 December 2007 was 318%, comprising share price growth of \$5.16, from the application price of \$1.85, and fully franked dividends paid amounting to 71.9 cents per share, excluding the final 2007 dividend of 12.5 cents payable on 11 April 2008.

During the 2007 year, InvoCare continued active capital management, which allowed it to again reward shareholders with respectable dividends. Basic earnings per share increased 11.7% to 27.6 cents per share. Total ordinary dividends for the 2007 year increased by 15.4% to 22.5 cents per share (2006: 19.5 cents per share) with the Directors declaring a final, fully franked, dividend of 12.5 cents per share (2005: 11.5 cents per share). The 2007 dividend payout ratio was 81.8% (2006: 79.8%), exceeding the minimum 75% target ratio.

InvoCare's Dividend Reinvestment Plan (DRP), which was first activated for the 2006 interim dividend paid in October 2006, remains active for the 2007 final dividend. Approximately 25% of InvoCare investors have elected to participate in the DRP. To avoid the dilution of non-participating investor holdings, the required DRP shares for the 2007 final dividend will be purchased on market.

Maintaining an optimal leverage ratio is a key capital management objective. Based on a capital management review in late 2007, the optimal capital structure, which has the lowest cost of capital, is indicatively at a leverage ratio (i.e. Net Debt/EBITDA) of between 3:1 and 5:1. At 31 December 2007 the leverage ratio was 2.5:1 and net debt was \$145.9 million, compared to 3.0:1 and \$146.8 million at the end of 2006. InvoCare can sustain and service higher levels of debt and, based on current circumstances, has a longer-term net debt target of 3.5x EBITDA. To achieve this target, where the capacity exists, debt financing will be used for small acquisitions and capital expenditure. In the absence of opportunities to invest in growing the business, excess debt capacity may be applied to make returns to shareholders (e.g. special dividends, share buy-backs). In the context of potential business acquisition opportunities, an acceleration of capital expenditure and the current credit market climate, no major capital management initiatives involving a return to shareholders in excess of normal dividends are anticipated during 2008.

InvoCare has complied with its debt covenants for unsecured facilities that are in place until January 2011. These facilities provide up to \$180 million in debt finance, plus \$5 million in working capital. The covenant ratios, as defined in the debt facility agreements, were as follows:

- interest cover (EBITDA/Net Interest Expense) must be greater than 3.00:1. At 31 December 2007 this ratio was 5.40:1 (2006: 5.06:1).
- leverage ratio (Net Debt/Adjusted EBITDA) must not be greater than 3.75:1. At 31 December 2007 this ratio was 2.47:1 (2006: 2.81:1).

An important capital management objective is to avoid excessive exposure to interest rate fluctuations and debt refinancing risk. InvoCare's policy to maintain floating to fixed base interest rate swaps for at least 75% of debt principal was again achieved in 2007. At 31 December 2007, the proportion of debt hedged was 99% (2006: 99%). The hedge contracts extend to the end of 2010. As a result of these contracts, InvoCare's effective interest rate, including margin, on borrowings at 31 December 2007 was 6.6% (2006: 6.6%). Interest expense on borrowings for the 2007 year increased by \$0.3 million, or 2.6%, to \$10.4 million.

In terms of refinancing risk, InvoCare's existing debt facilities expire in January 2011, when all the borrowings under the facilities become due and payable. Whilst there is no significant refinancing risk in the normal course of business, InvoCare is exposed to risks of refinancing all the amounts drawn (up to \$180 million) at the one time. Accordingly, it is proposed future financing facilities will have a staggered maturity profile to reduce the risk of refinancing on one maturity date. Acquisition and capital expenditure payments resulted in an increase of \$2.4 million in bank borrowings to \$154.9 million at 31 December 2007, compared to \$152.5 million at the end of 2006.

Taxation

InvoCare's 2007 tax expense was \$11.7 million (2006: \$10.4 million) with a reduction in the overall effective rate to 29.8% (2006: 30.2%). The reduction is primarily attributable to the impact of a full-year profit from Singapore Casket Company. The Republic of Singapore has a corporate income tax rate of 18% compared to 30% in Australia.

The Company has \$13.4 million in available franking credits (2006: \$10.9 million).

Cash Flow Highlights

	2007 \$m	2006 \$m
Net cash provided by operating activities	38.6	29.6
Proceeds from sale of property, plant and equipment	4.6	5.1
Purchase of subsidiaries and other businesses, net of cash acquired	(8.5)	(25.2)
Purchase of property, plant and equipment	(17.4)	(9.8)
Other	–	(1.7)
Net cash used in investing activities	(21.3)	(31.6)
Proceeds from issue of ordinary shares	0.3	5.1
Payment for shares acquired by deferred employee share plan	(0.8)	–
Net increase in borrowings	2.4	12.5
Payment of dividends – InvoCare Limited shareholders	(15.7)	(13.8)
Other	(0.1)	(0.1)
Net cash (used in) / provided by financing activities	(13.9)	3.7
Net increase in cash held	3.4	1.7
Cash and cash equivalents at the beginning of the year	5.7	4.0
Effect of exchange rate change	(0.1)	–
Cash and cash equivalents at the end of the year	9.0	5.7

Cash and cash equivalents at 31 December 2007 were \$9.0 million, representing an increase of \$3.3 million for the 2007 year. Operating cash flows remained strong and increased by \$9.0 million (or 30.3%) to \$38.6 million for the year, largely as a result of the good trading result and continued focus on working capital management.

Consistent with previous years, operating EBITDA was fully converted to cash as shown below:

	2007 \$m	2006 \$m
Operating EBITDA	58.9	49.1
Cash flow		
Cash provided by operating activities	38.6	29.6
Add/(Less):		
Finance costs	11.1	11.0
Income tax paid	12.6	10.3
Interest received	(0.3)	(0.3)
Ungeared, tax free operating cash flow	62.0	50.6
Proportion of EBITDA converted to cash	105%	103%

Income tax payments increased \$2.3 million to \$12.6 million, reflecting higher profits and the timing and amount of instalments.

Asset sale proceeds in 2007 included \$3.2 million deferred consideration from the sale of a non-strategic property in late 2006.

Payments for property, plant and equipment increased by \$7.5 million to \$17.4 million due to increased strategic capital expenditure in 2007. The total expenditure comprises:

	2007 \$m	2006 \$m
Property purchases	3.4	1.2
Refurbishments and facility upgrades	6.9	6.0
Motor vehicles	3.9	1.6
Cremators	1.8	0.1
Other assets	1.4	0.9
Total capital expenditure	17.4	9.8

The strategic capital expenditure was \$11.1 million, including the purchase of a previously leased funeral home property in Sydney, facility upgrades and refurbishments.

Payments for business acquisitions in the year related to the initial consideration paid for the purchase in March 2007 of Liberty Funerals in Sydney (\$3.2 million, net of cash acquired), deferred consideration paid in March 2007 for Singapore Casket Company (A\$2.4 million) and the purchase in December 2007 of Chippers in Western Australia (\$3.1 million).

Proceeds from share issues amounted to \$0.3 million during 2007 which related to the exercise of the remaining outstanding employee share options. At 31 December 2007 or since, there are no options over unissued InvoCare shares. In the previous year, share issues and exercise of options raised \$5.1 million, including \$4.6 million from underwriting the DRP shortfall for the 2006 interim dividend in October 2006 to help fund the Singapore acquisition.

Following the establishment of the InvoCare Deferred Employee Share Plan, shares to the value of \$0.8 million were acquired during 2007.

Additional net borrowings of \$2.4 million provided funds needed for acquisition payments and increased capital expenditure.

Dividends paid to InvoCare shareholders during the year amounted to \$15.7 million (2006: \$13.8 million), net of dividend reinvestment \$5.7 million (2006: \$3.2 million).

Prepaid Funerals

At 31 December 2007, prepaid funds under management for funeral, cremation and burial services, including customer instalment amounts receivable, not recorded as an asset on InvoCare's balance sheet, amounted to \$272 million, an increase of 7.9% on 2006. The asset allocation and annual gross investment returns of these funds are set out below:

	2007	2006	Movement %
Total prepaid funds	\$272m	\$252m	7.9
Asset allocation:			
Australian equities	57%	57%	
International equities	2%	2%	
Property	5%	5%	
Cash and/or fixed interest	36%	36%	
Gross returns:			
12 months ended	11.9%	17.2%	(5.3)
3 years ended	14.4%	16.2%	(1.8)
5 years ended	13.5%	10.7%	2.8
7 years ended	10.1%	10.0%	0.1

Gross returns exclude investment management fees and administration fees (currently 1.6%).

Group financial and operational review continued

During the year, the number of contracts redeemed exceeded new prepaid contracts written by only 2.1% (2006: 19.1%), a significant improvement on the previous year following renewed focus on selling prepaid funeral contracts. Approximately 13% of InvoCare's Australian funeral services performed had been prepaid (2006: 14%).

The estimated prepaid funeral fund surplus, being the excess of funds invested over the retail price of funerals if all services had been performed on 31 December 2007, increased during the year by \$10 million to \$56 million. The surplus amount did not change from the amount estimated at 30 June 2007.

The surplus is sensitive to the amount of assets and investment returns. In particular, the funds have a significant bias to equity markets with approximately 59% of the funds invested in shares. Long-term gross returns on the funds invested remained above 10%, although 12 month returns dropped, primarily due to equity market movements since July 2007.

Sharemarket declines and continued volatility since 31 December 2007 would have impacted the above surplus. It has been estimated that each 1% change in equity markets would alter the surplus by 3%. For example, if the values of equities fell by 15.0%, the estimated surplus would decline to \$31 million. A movement in the surplus would impact InvoCare's future earnings. However, the impact in any one year is unlikely to be material as approximately 50% of the surplus is expected to be released over the next 10 years, and 90% over about 28 years.

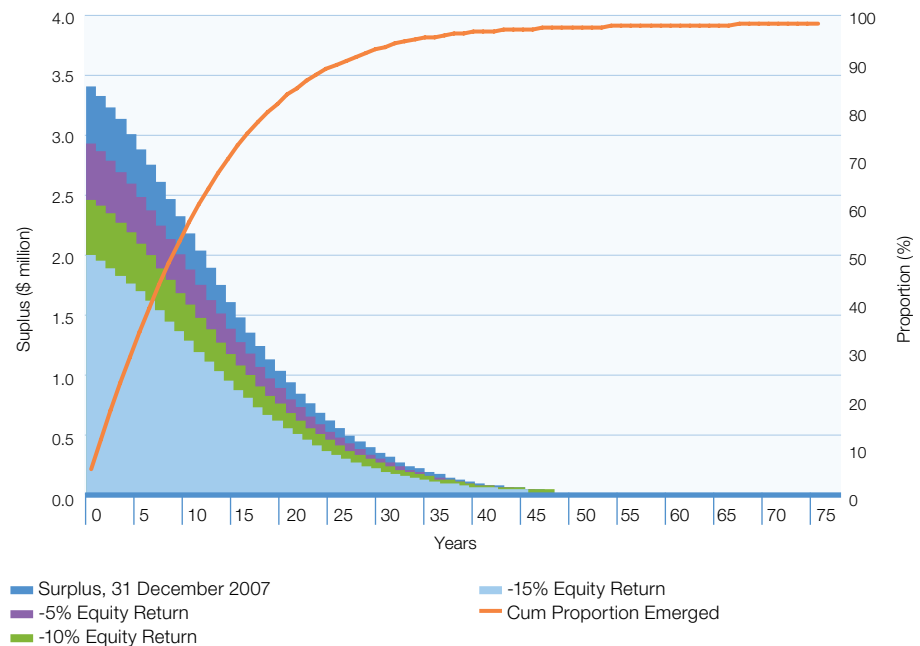
As previously reported, the prepaid funeral funds have no direct exposure to collateralised debt obligations or United States sub-prime debt.

Other Ratio Analysis for Information

InvoCare's management across all operations uses various financial and non-financial key performance indicators in monitoring the results and position of the Group and its various businesses. These measures may include, but are not limited to, areas such as the following:

- customer surveys
- numbers of services performed
- market share
- average selling prices

Maturity Profile of Surplus



- delivery timeframes of preneed memorials
- ratio of prepaid contracts sold to contracts redeemed
- prepaid fund asset allocations and investment returns
- brand awareness surveys
- days sales in accounts receivable
- cash flows
- debt service costs and covenant ratios
- operating margin percentages
- effective income tax rates
- employee learning and development
- workers' compensation claims and costs
- lost time injury rates and return to work statistics

Several key financial ratios relating to the Group as a whole which may be useful to investors are presented in the table opposite. The adoption of AIFRS resulted in some transitional accounting adjustments which precludes meaningful calculations for some of these ratios for the 2004 year.

2008 Outlook and Beyond

Preliminary sales for the first quarter of 2008 were approximately 7% above the corresponding first quarter of 2007. Excluding the impact of new acquisitions, that is Liberty Funerals and Chippers, on a comparable basis 2008 first quarter sales have increased approximately 4%. It is not necessarily appropriate to extrapolate this result for the balance of 2008. 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.

Ratio	Calculation		2007	2006	2005	2004
Operating margin on sales	EBITDA/Sales	%	26.3	25.6	25.7	24.8
Income tax rate	Tax expense/PBT	%	29.8	30.2	30.4	31.2
Dividend payout ratios:	Dividend/PAT					
– Ordinary dividends		%	81.8	79.8	79.4	76.0
– Special dividend		%	–	–	50.5	–
– Total dividend payout ratio		%	81.8	79.8	129.9	76.0
Return on equity	PAT/Average Equity	%	51.8	65.4	68.1	n/a
Return on assets	EBIT/Average Total Assets	%	15.8	15.4	15.3	n/a
Gearing	Net Debt/Equity	%	240.7	315.7	493.4	410.3
Leverage	Net Debt/EBITDA	x	2.5	3.0	3.0	3.0
Net interest cover	EBIT/Net interest	x	4.4	4.4	3.4	3.5
Asset replacement	Capital expenditure/depreciation and amortisation	x	1.9	1.2	1.1	0.6

InvoCare is well positioned, being the market leader in Australia and Singapore. With a solid and proven business model and with solid financial fundamentals supporting it, InvoCare can continue to grow from four drivers of profit:

1. Organically:

- investing in our people and their development;
- enhancing service offerings to our client families;
- annually increasing prices at least equal to CPI;
- increasing number of deaths, which the ABS has estimated to increase 0.9% p.a. until 2011, when it will increase to 1.2%, then to 1.6% from 2012, increasing to 1.9% in 2017;
- opening new locations and leveraging brands to grow market share;
- monitoring asset performance, including investing in facility upgrades and refurbishments or divesting non-performing/non-strategic assets;
- increasing the memorialisation rate in the cemeteries and crematoria by focussing on service and product offerings; and
- focussing on capital management, which is dependent upon trading and economic conditions, as well as acquisition/expansion opportunities and capital expenditure.

2. Acquisitions:

- pursuing small bolt-on acquisition opportunities to improve market share; and
- entering new markets, subject to sound business cases, which do not materially affecting our overall low risk profile.

3. Prepaid funds:

- growing the value of prepaid funds under management;
- writing more new prepaid contracts than contract redemptions;
- optimising fund asset allocations and returns; and
- ensuring that the annual net return on invested funds is greater than annual price increases; which should deliver incremental margin expansion, provided increases in costs for delivering funerals are contained to approximately CPI levels.

4. Operating leverage:

- InvoCare believes it has excess capacity in its operations to absorb the immediate demands from increased volumes;
- operating expenses will continue to be well managed and annual increases restricted to approximately CPI levels, or in the case of personnel costs, general wage cost increases in InvoCare's markets; and
- efficiencies can continue to be achieved through the pooling of labour, vehicles and back office functions.



Phillip Friery



Andrew Smith