

# Group financial and operational review

## FINANCIAL HIGHLIGHTS

	1st Half 2008 \$m	1st Half 2007 \$m	Change \$m	Change %	2nd Half 2008 \$m	2nd Half 2007 \$m	Change \$m	Change %	Full Year 2008 \$m	Full Year 2007 \$m	Change \$m	Change %
<b>Funerals</b>												
– Comparable Australia	79.6	75.9	3.7	4.8	94.6	87.4	7.2	8.2	174.2	163.4	10.8	6.6
– Comparable Singapore	3.9	3.9	–	(0.6)	4.5	3.5	1.0	29	8.4	7.4	1.0	13.4
– Australian acquisitions	4.0	0.9	3.2	365.1	5.7	1.6	4.1	255.9	9.8	2.5	7.3	294
Total funerals	87.5	80.7	6.8	8.4	104.8	92.5	12.3	13.3	192.3	173.2	19.1	11.0
Cemeteries and crematoria	28.2	27.7	0.4	1.5	30.3	29.6	0.7	2.5	58.5	57.3	1.2	2.0
Elimination of intra-group sales	(3.0)	(3.0)	0.1	(2.2)	(3.6)	(3.6)	–	0.3	(6.6)	(6.6)	0.1	(0.8)
<b>Sales Revenues</b>	112.7	105.4	7.3	6.9	131.5	118.5	13.0	11.0	244.2	223.9	20.3	9.1
Other revenue	2.1	1.7	0.4	21.3	2.1	1.9	0.1	7.6	4.1	3.6	0.5	14.0
Operating expenses	87.6	80.4	7.2	9.0	98.9	88.3	10.7	12.1	186.5	168.6	17.9	10.6
<b>Normalised Operating EBITDA</b>	27.2	26.7	0.4	1.6	34.7	32.2	2.5	7.8	61.9	58.9	2.9	5.0
<i>Normalised Operating EBITDA Margin</i>	24.1%	25.4%	(1.3%)	(1.3)	26.4%	27.2%	(0.8%)	(0.8)	25.3%	26.3%	(1.0%)	(1.0)
Depreciation and amortisation	(4.6)	(4.3)	(0.3)	6.4	(5.1)	(4.7)	(0.5)	10.3	(9.7)	(8.9)	(0.8)	8.5
Finance costs	(5.5)	(6.1)	0.6	(9.9)	(8.2)	(6.0)	(2.2)	36.8	(13.7)	(12.1)	(1.6)	13.2
Interest income	0.3	0.3	–	–	0.3	0.3	–	–	0.6	0.7	–	(1.7)
Income tax expense	(5.1)	(5.3)	0.2	(3.2)	(5.7)	(6.2)	0.5	8.5	(10.8)	(11.5)	0.7	(6.1)
<i>Effective tax rate</i>	29.3%	31.7%	(2.4%)	(7.5)	26.1%	28.3%	(2.2%)	(7.7)	27.5%	29.8%	(2.2%)	(7.5)
<b>Normalised Profit After Tax</b>	12.3	11.4	0.9	8.3	16.0	15.7	0.3	2.1	28.3	27.1	1.3	4.7
<i>Normalised Basic Earnings per Share</i>	12.3 cents	11.4 cents	0.9 cents	7.9	16.0 cents	15.7 cents	0.3 cents	1.9	28.3 cents	27.2 cents	1.1 cents	4.0
Profit After Tax on Sale of Assets	–	0.1	(0.1)	(96.6)	(0.3)	0.4	(0.7)	(158.7)	(0.2)	0.6	(0.8)	(143.1)
Minority interest	–	–	–	–	–	(0.1)	–	(51.6)	(0.1)	(0.1)	–	(29.9)
<b>Profit After Tax</b>	12.3	11.5	0.8	6.9	15.7	16.1	(0.3)	(2.0)	28.0	27.6	0.5	1.7
<i>Basic Earnings per Share</i>	12.3 cents	11.6 cents	0.7 cents	6.0	15.7 cents	16.1 cents	(0.4) cents	(2.5)	28.0 cents	27.6 cents	0.4 cents	1.4

### Summary of financial performance

The Company increased normalised profit after tax for the year ended 31 December 2008 by 4.7% to \$28.3 million. Normalised basic EPS increased 4.0% to 28.3 cents per share. These results were underpinned by:

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

Operating cash flows remained strong at \$36.5 million, although \$2.1 million lower than the previous year due to the reduced prepaid funeral fund contribution. Cash conversion was a healthy 98% of EBITDA, enabling further reinvestment in the business and continuation of a high dividend payout ratio of 84.3% (2007: 81.8%).

With the solid 2008 results, a final fully franked dividend of 13.0 cents per share was declared, taking the full year dividends to 23.5 cents, 4.4% or 1.0 cent higher than 2007.

InvoCare's business model involves pursuit of organic and acquisition growth, improving service levels, increasing operational efficiencies, positioning for favourable demographic changes and prudent capital management. The model was again proven in 2008.

### Sales revenue

Sales revenue for the full year increased by \$20.3 million, or 9.1%, to \$244.2 million. Funeral sales increased by 11.0% to \$192.3 million and contributed \$19.1 million of the overall increase.

Comparable Australian funeral operations, which include new locations, generated an additional \$10.8 million or 6.6%, increasing comparable sales revenue to \$174.2 million for the year. The number of funeral services performed increased by 3.6%, contributing \$5.7 million to the sales increase. The number of deaths in InvoCare's Australian markets increased by an estimated 2.1% in 2008 (2007: 4.4%) and InvoCare's overall market share increased by 1.7%.

At the time of announcing InvoCare's full year results on 19 February 2009, mention was made of estimates released by the Australian Bureau of Statistics (ABS) up to the end of the second quarter of 2008 and differences to InvoCare's own market estimates. On 18 March 2009, ABS released preliminary Australian death numbers for the third quarter of 2008, including updating some past estimates. The latest data released by ABS is not in sufficient detail to determine deaths in each InvoCare market. However, the revised ABS numbers now more closely align to InvoCare's own market estimates as set out in the following table showing percentage increases in the number of deaths compared to the prior corresponding year or half year.

	IVC estimates for its markets %	ABS national estimates released on 18 March 2009 %	ABS national estimates released on 2 December 2008 %
Year ended 31 December 2007	4.4	3.3	2.5
Six months ended 30 June 2008	1.9	4.7	6.4
Year ended 30 June 2008	4.3	4.5	5.3
Year ended 30 September 2008	2.4	1.4	n/a
Year ended 31 December 2008	2.1	n/a	n/a

Despite the differences between ABS and InvoCare estimates, importantly there is a consistent demographic trend of increasing numbers of deaths as shown in the graph below of actual and projected numbers based on ABS data.

In 2008, InvoCare's average Australian funeral selling prices rose by 4.6%, contributing \$7.7 million to the sales revenue increase. The surplus from prepaid funeral fund redemptions contributed \$0.5 million to sales revenue, a drop of \$2.6 million on the previous year as investment returns declined due to the global financial crisis.

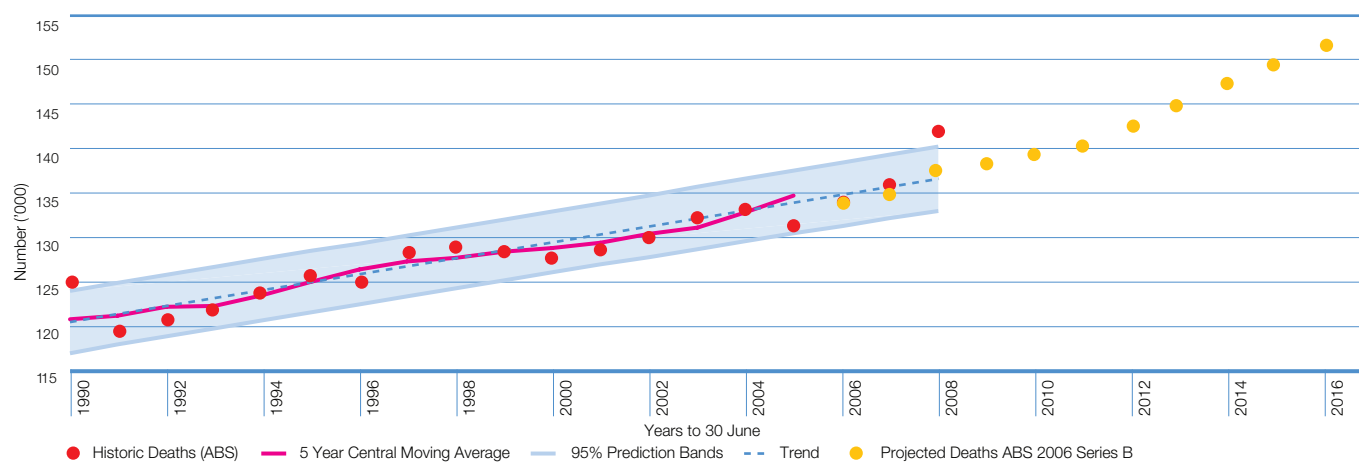
Nine new funeral homes were opened in 2008, taking the total opened in the last three years to 26 and the total across Australia to 162. It can take several years for a new location to achieve InvoCare's operating margin. In addition, as more new locations are opened, including by expansion of InvoCare's 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.

Australian funeral businesses acquired since 1 January 2007 generated \$9.8 million sales revenue in 2008, contributing \$7.3 million to the funeral sales increase. The businesses acquired were Liberty Funerals (Sydney, March 2007), Chipper Funerals (Perth and surrounds, December 2007), Christian Funerals (Perth, August 2008) and Southern Cross Funerals (Melbourne, October 2008). All business acquisitions made since ASX listing in December 2003, including Ann Wilson Funerals (Sydney, December 2005), Drysdale Funerals (Sunshine Coast, July 2006) and Singapore Casket Company (October 2006), have performed well and according to plan.

Approximately 13% (2007: 13%) of InvoCare's Australian funerals performed had been prepaid. During 2008, the number of new prepaid funeral contracts sold for future service delivery exceeded prepaid funeral contracts performed by 6.9% and average new contract prices increased by 7.2% on 2007.

InvoCare's Singapore funeral business contributed A\$8.4 million to the Group's sales revenue, an increase of 13.4% or A\$1.0 million on 2007. In local Singapore currency, Singapore's sales increased by 7.0%. Case volume was down by 4.1% due to increased competition, but this was more than offset by an 11.8% improvement in average price per case in local Singapore currency. The Australian dollar weakened by more than 21% against the Singapore dollar during the year which contributed to the above sales growth expressed in Australian currency.

### Actual and Projected Deaths – Australia



InvoCare's cemeteries and crematoria, which only operate in New South Wales and Queensland, increased sales revenue by \$1.2 million, or 2.0%, to \$58.5 million. The number of deaths in InvoCare's markets was estimated to have increased by 2.6% (2007: 3.8%) but a small market share erosion was experienced in Sydney due to Rookwood crematorium not operating at full capacity following a fire in late July 2008. There was also a reduction in the number and average value of prepaid memorial contracts, particularly higher value sales in the second half of the year, as some customers chose to defer or limit purchases in the prevailing economic climate. This impact was partly mitigated by stepped up activity to construct and deliver previously sold memorials enabling recognition of previously deferred revenue.

### Normalised operating EBITDA

Normalised operating EBITDA increased by \$2.9 million, or 5.0%, to \$61.9 million. Normalised Operating EBITDA margins were 25.3% compared to 26.3% in the previous year. Of this 1.0% decline, 0.9% was due to the lower contribution from prepaid funeral fund redemptions and the balance arose from lower margin acquisitions and new locations.

Operating costs were generally consistent with, or contributed to, business growth. Margins are expected to improve over time from operating leverage and efficiencies as new businesses are integrated and new funeral home locations mature.

Employee related costs, which represent approximately 40% of all operating costs, increased 9.1% to \$72.8 million. The ratio of these costs to sales was 29.8%, the same as 2007. Comparable employment costs (that is, excluding the impact of acquisitions) increased 6.6% to \$70.7 million. The ratio of comparable employment costs to sales revenue remained fairly constant with a small increase to 30.1%, from 29.9% in 2007.

Finished goods, consumables used and funeral disbursements represent approximately 39% of all operating costs and increased 13.1% to \$73.1 million. The ratio of these expenses to sales was 29.9% compared to 28.9% in 2007. On a comparable business basis, the ratio was 29.6%, compared to 28.7% in 2007. The ratio movements are mainly sales mix related.

Occupancy costs, which represent approximately 8% of operating costs, increased 14.4% to \$15.2 million in 2008. The ratio of occupancy costs to sales increased to 6.2% from 5.9% in 2007. The increases were primarily due to acquisitions and the opening of new leased funeral locations. Comparable business occupancy costs increased 9.0% to \$14.3 million.

Advertising and promotion expenses represent approximately 4% of all operating costs and increased \$1.0 million, or 13.9%, to \$7.9 million in 2008. Comparable business advertising and promotion expenses increased \$0.8 million, or 11.7%, to \$7.7 million. Of the overall increase, \$0.8 million arose in the first half of 2008, following a planned acceleration of spending in that half to promote brand development and prepaid funerals. The second half expenses increased by \$0.2 million or 5.1% on the corresponding second half of 2007.

Motor vehicle costs, representing about 3% of all operating costs, increased by \$0.5 million or 9.5% to \$5.5 million primarily due to business acquisitions (\$0.2 million of the increase) and higher fuel prices (\$0.3 million).

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

### Depreciation and amortisation

Depreciation expense increased by \$0.8 million to \$9.7 million in 2008. This increase was mainly attributed to the impact of business acquisitions (\$0.2 million), new capital expenditure (\$0.4 million) and accelerated depreciation on certain plant and equipment following reassessment of useful lives (\$0.4 million).

### Financing costs

Finance costs increased by \$1.6 million to \$13.7 million. The main components of the increase were unfavourable, non-cash fair value movements in derivative financial instruments (\$1.2 million), interest paid on debt, which was on average \$3 million higher than in 2007 (\$0.2 million), and foreign exchange losses (\$0.1 million).

### Taxation

InvoCare's 2008 income tax expense was \$10.7 million (2007: \$11.7 million). Excluding the impact of \$0.6 million in prior period adjustments, the overall effective tax rate was 29.2%, compared to 29.8% for 2007.

The Company has \$15.1 million in available franking credits (2007: \$13.4 million).

## 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 28.0 cents in 2008. This represents a compound annual growth rate of 11.5%.

An investment of \$1.00 in InvoCare at 31 December 2003 would have increased in value, excluding dividends, against the S&P/ Index as shown in the graph below. In particular, the graph shows how InvoCare's share price has held its value far better than the underlying market since the start of the financial crisis in late 2007 which reflects market confidence in InvoCare.

Since InvoCare's initial public offering in late 2003, the total shareholder return to 31 December 2008 was 230%, comprising share price growth of \$3.30, from the application price of \$1.85, and fully franked dividends paid amounting to 94.9 cents per share, excluding the final 2008 dividend of 13.0 cents payable on 9 April 2009.

During the 2008 year, InvoCare continued active capital management, which allowed it to again reward shareholders with an increased dividend. Basic earnings per share increased 1.4% to 28.0 cents per share. Total ordinary dividends for the 2008 year increased by 4.4% to 23.5 cents per share (2007: 22.5 cents per share) with the directors declaring a final, fully franked, dividend of 13.0 cents per share (2007: 12.5 cents per share). The 2008 dividend payout ratio was 84.3% (2007: 81.8%), 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 2008 final dividend. Approximately 25% of InvoCare investors have elected to participate in the DRP.

Maintaining an optimal leverage ratio is a key capital management objective. 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. The Group can sustain and

service higher levels of debt than the amount at balance date and, before the onset of the global financial crisis, had a longer term net debt target of 3.5x EBITDA. Financiers may be unwilling to lend at this ratio in the current markets. 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, the Group will consider applying excess debt capacity to make returns to shareholders (e.g. special dividends, share buy-backs, etc). No major capital management initiatives involving a return to shareholders in excess of normal dividends are anticipated during 2009.

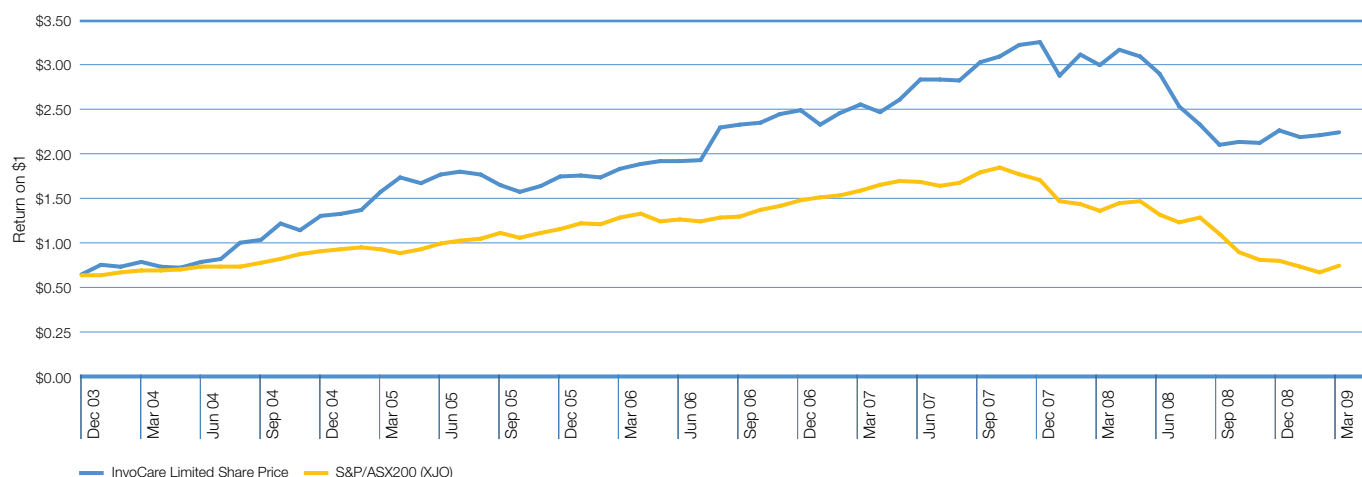
The Group's existing bi-lateral debt facilities with two of Australia's big four banks (Australia and New Zealand Banking Group Limited and National Australia Bank Limited) expire in January 2011 when all the debt becomes due and payable. These unsecured facilities provide up to \$180 million in debt finance, plus \$5 million in working capital. At 31 December 2008, borrowings drawn on the debt facilities amounted to \$158.9 million, an increase of \$4.0 million from the previous year end. The Group has commenced work in preparation for the debt refinancing well in advance of the maturity of the existing bank debt facilities.

InvoCare has complied with its debt covenants for the above facilities. 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 2008 this ratio was 5.97:1 (2007: 5.40:1).
- Leverage ratio (Net Debt/Adjusted EBITDA) must not be greater than 3.75:1. At 31 December 2008 this ratio was 2.49:1 (2007: 2.47:1).

Another important capital management objective is to avoid excessive exposure to interest rate fluctuations. InvoCare's policy to maintain floating to fixed base interest rate swaps for at least 75% of debt principal was again achieved in 2008. At 31 December 2008 the proportion of debt hedged was 96% (2007: 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 2008 was 6.4% (2007: 6.6%).

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



## CASH FLOW

	2008 \$m	2007 \$m
<b>Net cash provided by operating activities</b>	<b>36.5</b>	38.6
Proceeds from sale of property, plant and equipment	0.6	4.6
Purchase of subsidiaries and other businesses, net of cash acquired	(6.1)	(8.5)
Purchase of property, plant and equipment	(16.4)	(17.4)
<b>Net cash used in investing activities</b>	<b>(21.9)</b>	(21.3)
Proceeds from issue of ordinary shares	–	0.3
Shares acquired by InvoCare Deferred Employee Share Plan Trust	(0.8)	(0.8)
Net increase in borrowings	4.0	2.4
Payment of dividends – InvoCare Limited shareholders	(20.4)	(15.7)
Other	–	(0.1)
<b>Net cash used in financing activities</b>	<b>(17.2)</b>	(13.9)
Net increase/(decrease) in cash held	(2.6)	3.4
Cash and cash equivalents at the beginning of the year	9.0	5.7
Effect of exchange rate change	–	(0.1)
<b>Cash and cash equivalents at the end of the year</b>	<b>6.4</b>	9.0

Operating cash flows were \$2.1 million lower than the corresponding year, primarily due to the decline in prepaid surplus.

Consistent with previous years, for the full year there was strong conversion of Operating EBITDA to cash. In the first half the conversion rate was 88%, but this shortfall was arrested as expected with a strong second half conversion at 106%, resulting in 98% for the full year.

	2008 \$m	2007 \$m
<b>Operating EBITDA</b>	<b>61.9</b>	58.9
<b>Cash flow</b>		
Cash provided by operating activities	36.5	38.6
Add/(less):		
Finance costs	11.3	11.1
Income tax paid	12.9	12.6
Interest received	(0.2)	(0.3)
<b>Ungearred, tax free operating cash flow</b>	<b>60.5</b>	62.0
<b>Proportion of EBITDA converted to cash</b>	<b>98%</b>	105%

Payments for the purchase of businesses included the acquisition of Christian Funerals (\$1.6 million) and Southern Cross Funerals (\$0.5 million) plus payments of deferred consideration for Singapore Casket Company (\$0.9 million), Liberty Funerals (\$0.7 million) and Chipper/Oakwood Funerals (\$2.4 million).

Payments for property, plant and equipment comprise:

	2008 \$m	2007 \$m
Property purchases	0.4	3.4
Refurbishments and facility upgrades	5.7	4.1
Motor vehicles	3.2	3.9
Cremators	2.2	1.8
Other assets	4.9	4.2
<b>Total capital expenditure</b>	<b>16.4</b>	17.4

Dividend payments were higher this year due to the increase in cents per share on previous interim and final dividends and the on market purchase of required DRP shares for the 2007 final dividend paid in April 2008.

## PREPAID FUNERALS

At 31 December 2008, prepaid funeral funds under management, including customer instalment amounts receivable, not controlled by InvoCare and not recorded as an asset on InvoCare's balance sheet, amounted to \$237 million (31 December 2007: \$272 million). The prepaid funds will be recognised in sales and operating profit in future years when the prepaid funeral services are performed and monies are redeemed from the prepaid trusts. An estimated 50% is expected to be recognised over the next 10 years and 90% over about 25 years. As mentioned above, in any one year approximately 13% of all Australian funeral services performed by InvoCare have been prepaid.

The estimated surplus, or additional margin, included in the prepaid funds to be recognised in future years reduced during the year by \$49 million to an estimated \$7 million at 31 December 2008. This surplus is the excess of funds invested over the retail price of funerals if all the prepaid services had been performed on 31 December 2008. However, funeral service selling price increases in the order of 4.0% to 4.5% applied from 1 January 2009 and will have resulted in the surplus declining by an estimated \$10 million (that is, to negative \$3 million). Consequently, sales and operating margins after 31 December 2008 will be negatively impacted as the contracts on hand at the end of 2008 are redeemed, unless future net investment returns exceed the impact of selling price increases.

InvoCare monitors the asset allocations and investment performance at least quarterly and makes representations where possible to those in control of the trusts to mitigate price risks and enhance the returns which will ultimately impact InvoCare's future results. Despite the number of new funeral contracts exceeding redemptions, the volatile capital and financial markets have resulted in negative returns over the last year, as shown below. Pleasingly, the returns have remained above benchmark.

	31 December 2008	31 December 2007	Change \$ or %
Prepaid funds under management	<b>\$237m</b>	\$272m	(\$35m)
<b>Asset allocation</b>			
Australian equities	<b>28.4%</b>	56.9%	(28.5%)
International equities	<b>1.6%</b>	1.8%	(0.2%)
Property	<b>1.1%</b>	4.7%	(3.6%)
Fixed interest	<b>10.1%</b>	20.5%	(10.4%)
Cash	<b>58.8%</b>	16.1%	42.7%
<b>Gross annual returns for all fund assets*</b>			
One year ended	<b>(14.1%)</b>	11.9%	(26.0%)
Three years ended	<b>4.0%</b>	14.4%	(10.4%)
Five years ended	<b>8.6%</b>	13.5%	(4.9%)
Seven years ended	<b>6.8%</b>	10.2%	(3.4%)

\* Excludes investment management and administration fees (currently 1.6%)

With the funds held in trust for relatively long periods (because contracts are redeemed over approximately 15 years), investment strategies take a long-term view for those trusts not restricted to more conservative, capital guaranteed assets. Historically, equities have provided the best long-term returns and consequently, until recently, there has been an asset allocation bias to equities. However, over the last 18 months, the unprecedented global financial crisis has seen significant declines in equity market values, as well as falling cash interest rates.

To mitigate and lessen exposure to further value erosion of the invested funds, in August 2008 the fund manager of the largest portion (approximately 75%) of prepaid funeral fund assets shifted \$58 million from equities and property into cash and fixed term deposits. With the benefit of hindsight, it is estimated that this tactical tilt from equities saved approximately \$15 million in further value declines over the period to 31 December 2008. Since 31 December 2008, a further \$23 million was shifted from equities into term deposits.

After the above asset reallocations, InvoCare estimates Australian equity investments had reduced to approximately 17% of total prepaid funds under management. The long-term investment strategies remain unchanged. The tactical short-term asset reallocations from equities to fixed term deposits provide certainty of positive returns for the near future, as opposed to volatile and generally negative equity returns, and protect InvoCare's future sales and operating margin when the prepaid services are performed. With varying maturity dates during 2009, the maturing term deposits may be redirected into equity markets when there is an observed and sustained recovery in those markets.

## 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
- 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 receivable
- Cash flows
- Debt service costs and covenant ratios
- Operating margin percentages
- Effective income tax rates
- Employee learning and development
- Workers's 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 below. The adoption of AIFRS resulted in some transitional accounting adjustments which precludes meaningful calculations for some of these ratios for the 2004 year.

Ratio	Calculation		2008	2007	2006	2005	2004
Operating margin on sales	EBITDA/Sales	%	<b>25.3</b>	26.3	25.6	25.7	24.8
Income tax rate	Tax expense/PBT	%	<b>27.5</b>	29.8	30.2	30.4	31.2
Dividend payout ratios:	Dividend/PAT						
- Ordinary dividends		%	<b>84.3</b>	81.8	79.8	79.4	76.0
- Special dividend		%	-	-	-	50.5	-
- Total dividend payout ratio		%	<b>84.3</b>	81.8	79.8	129.9	76.0
Return on equity	PAT/Average equity	%	<b>45.5</b>	51.8	65.4	68.1	n/a
Return on assets	EBIT/Average total assets	%	<b>15.4</b>	15.8	15.4	15.3	n/a
Gearing	Net debt/Equity	%	<b>241.7</b>	240.7	315.7	493.4	410.3
Leverage	Net debt/EBITDA	x	<b>2.5</b>	2.5	3.0	3.0	3.0
Net interest cover	EBIT/Net interest	x	<b>4.0</b>	4.4	4.4	3.4	3.5
Asset replacement	Capital expenditure/ Depreciation and amortisation	x	<b>1.7</b>	1.9	1.2	1.1	0.6

## 2009 OUTLOOK AND BEYOND

Preliminary sales for the first quarter of 2009 were \$58.5 million, 7.7% above the corresponding first quarter of 2008. The number of funerals performed in Australia was 4.4% higher than 2008, and on a comparable basis 2.7% higher. Prepaid funeral fund contributions, as expected, have remained lower than 2008 and reduced sales and margins for the quarter by \$0.3 million compared to \$0.3 million increase in the first quarter of 2008. After net deferred revenue adjustments, overall cemeteries and crematoria sales were 0.5% lower in the quarter.

The Group's performance is significantly dependent upon the number of deaths. Long-term actuarial trend predictions indicate the number of deaths will increase as the population ages, but in any one year the actual number may vary above or below the trend.

InvoCare's results are also impacted by monies received from off balance sheet trusts upon delivery of prepaid services. The long-term investment strategy for these prepaid funds includes an asset allocation bias to equities, which historically has given the best long-term investment returns. However, equity values have declined significantly in the global financial crisis, impacting InvoCare's results. A tactical tilt away from equities has been made to mitigate the short-term impacts.

Furthermore, another factor impacting results notably in the second half of 2008 was discretionary cemeteries and crematoria memorial purchases by family customers appeared to have been delayed or scaled down in the weaker economic conditions. This trend is expected to continue into 2009 but can be partly mitigated by acceleration of delivery of prepaid memorials to enable recognition of previously deferred revenue.

InvoCare remains well positioned as the market leader in Australia and Singapore. With a solid and proven business model and sound financial fundamentals supporting it, InvoCare can continue to grow from its profit drivers:

### 1. Organically:

- investing in our people and their development;
- enhancing service offerings to our client families;
- annually increasing prices at least equal to CPI;
- benefiting from an increasing number of deaths, which the ABS has estimated to rise beyond 1.5% p.a. from 2011, growing progressively to a rate of 2.7% around 2030 before steadily declining to around 1.0% again in the mid 2050s;
- 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 focusing on service and product offerings; and
- continued capital management, which is dependent upon trading and economic conditions, as well as acquisition/expansion opportunities and capital expenditure.

### 2. Acquisitions:

- pursuing acquisition opportunities to improve existing market share; and
- entering new domestic or international markets; for example, by acquisition, joint venture or greenfield operations, subject to sound business cases and 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 contracts performed;
- optimising fund asset allocations and returns; and
- ensuring that the annual net return on invested funds is greater than annual price increases to deliver incremental margin expansion.

### 4. Operating leverage:

- maintaining suitable, but not excessive, operating capacity to absorb the immediate demands from increased volumes;
- continuing to contain and manage operating expenses, in particular payroll related costs; and
- achieving efficiencies through the pooling of labour, vehicles and back office functions, in particular as new business acquisitions are integrated and new funeral home locations mature.