



InvoCare Limited
ABN 42 096 437 393

Appendix 4D – Half Year Final Report
For the six months ended 30 June 2010

Lodged with Australian Stock Exchange under Listing Rule 4.2A

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Results for announcement to the market

Consolidated Financial Results	Compared to actual for previous half year ended 30 June 2009	Half year ended 30 June 2010 \$'000
Total sales to external customers	Up 4.2%	128,665
Total revenue from ordinary activities	Up 4.2%	131,613
Profit from ordinary activities after tax attributable to members	Up 16.0%	16,590
Net profit attributable to members	Up 16.0%	16,590
Dividends	Amount per security	Franked Amount per security
Interim dividend per ordinary share payable on 8 October 2010	13.0 cents	13.0 cents
<p>The record date for determining entitlements to the interim dividend is 17 September 2010. The ex dividend date will be 13 September 2010.</p> <p>The Dividend Reinvestment Plan will apply to this interim dividend and it is intended the required shares will be purchased on market. It is not intended that any shortfall in DRP take-up be underwritten nor will shares be issued at a discount to the market price.</p>		

Commentary on the Results

For the half year ended 30 June 2010

Results highlights:	Half year ended 30 June 2010	Half year ended 30 June 2009	Change		Full year ended 31 December 2009 \$'000
	\$'000	\$'000	\$'000	%	
Sales revenue:					
Funerals					
Australia	93,832	91,298	2,534	2.8%	191,834
Singapore	4,577	4,766	(189)	-4.0%	9,234
Total funerals	98,409	96,064	2,345	2.4%	201,068
Cemeteries & crematoria	33,542	30,538	3,004	9.8%	62,645
Elimination of intra-group sales ⁽ⁱ⁾	(3,286)	(3,149)	(137)	-4.4%	(6,634)
Total sales to external customers	128,665	123,453	5,212	4.2%	257,079
Other revenue	2,631	2,511	120	4.8%	5,157
Operating expenses	(98,334)	(96,659)	(1,675)	-1.7%	(197,043)
Operating EBITDA ⁽ⁱⁱ⁾	32,962	29,305	3,657	12.5%	65,193
<i>Operating Margin</i>	25.6%	23.7%		1.9%	25.4%
Depreciation and amortisation	(5,431)	(5,341)	(90)	-1.7%	(10,793)
Finance costs ⁽ⁱⁱⁱ⁾	(5,535)	(5,443)	(92)	-1.7%	(11,046)
Interest income	318	292	26	8.9%	579
Operating profit before tax	22,314	18,813	3,501	18.6%	43,933
Income tax expense	(6,465)	(5,435)	(1,030)	-18.9%	(12,722)
<i>Effective tax rate</i>	29.0%	28.9%		0.1%	29.0%
Operating profit after tax ^(iv)	15,849	13,378	2,471	18.5%	31,211
Basic earnings per share	15.6 cents	13.3 cents	2.3 cents	17.3%	30.9 cents
Prior period tax (expense)/credit	(21)	175	(196)		170
Investment allowance tax benefit	313	190	123		530
Non-cash swap movements after tax	395	816	(421)		1,551
Asset sale gains/(losses) after tax	798	(219)	1,017		(182)
Acquisition related expenses after tax	(691)	-	(691)		-
Minority interest	(53)	(39)	(14)		(82)
Net profit after tax attributable to InvoCare shareholders	16,590	14,301	2,289	16.0%	33,198
Basic earnings per share	16.4 cents	14.2 cents	2.2 cents	15.5%	32.9 cents
Dividends					
Interim ordinary dividend per share	13.0 cents	11.5 cents	1.5 cents	13.0%	11.50 cents
Final ordinary dividend per share	n/a	n/a	n/a	n/a	13.75 cents
Total ordinary dividend per share	n/a	n/a	n/a	n/a	25.25 cents

(i) Burial and cremation fees invoiced by InvoCare owned cemeteries and crematoria to InvoCare owned funeral homes, which in turn are invoiced to funeral home customers as funeral disbursements, have been eliminated to arrive at consolidated Group sales made to external customers.

(ii) Operating EBITDA excludes net gains or losses on sale or impairment of non-current assets and acquisition related expenses.

(iii) Finance costs exclude non-cash fair value movements on financial instruments (eg. interest rate swaps).

(iv) Operating profit after tax excludes prior period tax effects, non-recurring investment allowance tax benefits, non-cash fair value movements on financial instruments, net gains or losses on sale or impairment of non-current assets and acquisition related expenses.

Commentary on the Results (continued)

For the half year ended 30 June 2010

Introduction

Despite continuing headwinds in the number of deaths, InvoCare has achieved another solid performance in the half year to 30 June 2010 with reported profit after tax up 16.0% to \$16.6 million. Adjusting for non-recurring items, the underlying operating profit after tax increased by 18.5% to \$15.8 million. Contributing to the good result, cemeteries and crematoria memorial sales improved on the depressed levels encountered early in 2009 and continued focus on cost management assisted in achieving improved operating leverage.

Cash flows remained strong, although conversion of EBITDA to cash was down on previous periods due primarily to the timing and working capital impacts of cemeteries and crematoria sales.

An interim, fully franked dividend of 13.0 cents per share is payable on 8 October 2010. This dividend is 1.5 cents or 13.0% higher than the previous year's interim dividend of 11.5 cents per share and follows the payment of the 2009 final dividend of 13.75 cents on 9 April 2010.

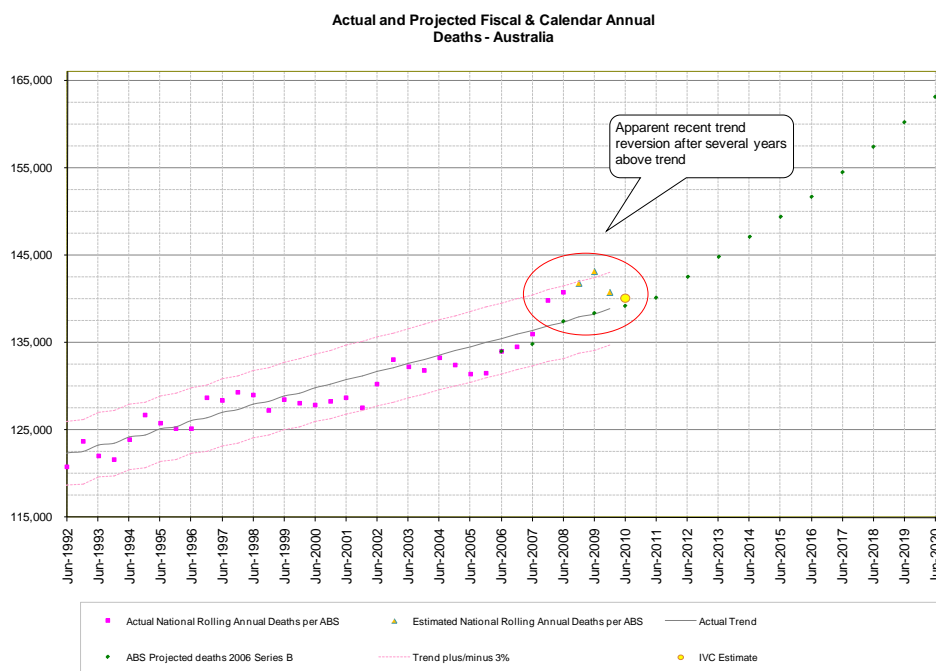
The Group's debt facilities which were due to mature in January 2011 are being refinanced and, subject to finalisation of legal documentation currently underway, new facilities are expected to be in place from the beginning of September 2010. The new facilities are for \$255 million (an increase of \$75 million from the previous \$180 million facilities), spread evenly across three major banks (ANZ, NAB & CBA), and provide additional headroom to pursue further growth opportunities over the next five years.

Following the solid first half result, InvoCare's expectations for the full year remain positive but, as usual, the result will be dependent on the actual number of deaths and the mix of where the deaths occur.

Sales

Sales revenue increased 4.2% or \$5.2 million to \$128.7 million, largely driven by a strong performance from cemeteries and crematoria, albeit on a low base. The number of Australian funeral services performed decreased by 1.0%, consistent with InvoCare's estimate of the overall decline in the number of deaths in its markets.

The following graph of ABS actual, estimated and longer term forecasts suggests, consistent with InvoCare's experience, the number of deaths appears to be reverting to the longer term trend, after a short period of above average numbers.



Commentary on the Results (continued)

For the half year ended 30 June 2010

Offsetting the volume declines, overall average Australian funeral selling prices improved by 3.8%, or by 5.0% after excluding prepaid funeral contributions and disbursements. In anticipation of a mix correction with lower volumes in higher average value states, InvoCare increased its prices by an average of 4.8% from the beginning of the year. This mix correction did not occur to the extent expected in the first half, resulting in actual average price increases being slightly higher than list price increases.

WN Bull Funerals business in Sydney was acquired on 15 June 2010 and contributed \$0.2 million in revenues to the Group's result. No new locations were opened in Australia in the first half.

Prepaid funeral fund redemptions did not generate surplus margins in the half, although contributions improved significantly from the negative \$0.6 million (ie. below normal retail prices) in the corresponding first half of 2009. The number of new prepaid funerals contracts sold increased by 5.8% on the corresponding prior period and exceeded the number of prepaid services performed by 17.2% (2009: 18.5%).

Revenue from cemeteries and crematoria was up 9.8% to \$33.5 million. There was marked improvement in memorialisation revenues, especially in sales contracts averaging more than \$15k, which were up 33% on the corresponding prior period. The recent completion of crypt complexes enabled recognition of approximately \$1.6 million in previously deferred crypt revenue. The number of burial and cremation services declined by 2.8%. The number of deaths in InvoCare's markets is estimated to be down by approximately 0.5%. With the exception of some market share losses in Queensland's Gold Coast, the overall share of all other markets has been maintained. List price increases of between 4% and 5% were implemented in cemeteries and crematoria from the beginning of March.

Singapore Casket Company contributed A\$4.6 million to the group's first half sales revenue, a decrease of A\$0.2 million or 4.0% on the corresponding half, largely due to unfavourable exchange rate fluctuations. In local currency, Singapore's sales increased by 12.8%. Service numbers were up 4.9% and average selling prices were up 7.5%.

Other revenue

Other revenue increased by \$0.1 million or 4.8% to \$2.6 million.

Operating expenses

Operating expenses (excluding depreciation, amortisation and finance costs) increased \$1.7 million or 1.7% to \$98.3million. Some key highlights for the half year are as follows:

- Finished goods, consumables and funeral disbursements decreased by \$0.7 million or 1.8% to \$36.2 million. These costs were 28.2% of sales compared to 29.9% in the first half of 2009. Excluding funeral disbursements and prepaid funeral fund contributions from sales, cost of goods and consumables on core sales revenue was 14.9% compared to 15.5% in the corresponding period. The margin improvement is due to a combination of selling price increases, supplier cost management (including savings generated by offshore sourcing) and product mix.
- Overall employee related costs increased by \$1.5 million or 4.0% to \$40.0 million. Scale efficiencies were again achieved with the ratio of these costs to core sales revenue (that is, sales excluding funeral disbursements, prepaid funeral contributions and intra group eliminations), improving 0.5% to 37.0% from 37.5% in the first half of 2009. The ratio of non sales related payroll costs to core sales improved 1.1%.
- Occupancy and facility expenses increased by \$0.7 million or 8.5% to \$8.8 million. New locations (including the new parlours in Singapore) account for \$0.2 million of the increase, with other noteworthy increases being light and power which was up \$0.2 million or 37% and land tax which was up \$0.1 million or 8.0%.
- Motor vehicle expenses were down \$0.2 million or 8.7% to \$2.4 million. Lower fuel prices as compared to same period last year as well as reduced maintenance costs due to newer vehicles in the fleet were the main contributors for this decrease.
- Advertising and marketing expenses (\$3.8 million) were managed and contained to similar levels as 2009.

Commentary on the Results (continued)

For the half year ended 30 June 2010

Operating EBITDA

Operating EBITDA (ie. earnings before interest, tax, depreciation, amortisation, acquisition related expenses and net gains or losses on asset sales and impairment) improved by \$3.7 million or 12.5% to \$33.0 million.

Operating margin as a percentage of gross sales improved 1.9% to 25.6% (2009: 23.7%). Core margins (i.e. after removing the impact of prepaid funeral contributions & adjusting for reduced disbursements in Victoria) improved by 0.9%, mainly attributable to continued focus on managing operating expenses as well as the benefit from the greater contribution to the revenue mix from the higher margin cemeteries and crematoria sales.

Depreciation and amortisation expenses

Depreciation and amortisation expenses increased by \$0.1 million to \$5.4 million.

Finance costs

Finance costs (excluding non-cash interest rate swap fair value movements) increased by \$0.1 million to \$5.5 million. Favourable non-cash fair value movements in interest rate swap contracts amounting to \$0.6 million (2009: 1.2 million) were booked in the half.

Asset sale gains and losses

A net gain of \$0.7m was realised in the period (2009: loss of \$0.2m) and was largely due to the sale of some non-strategic properties.

Income tax expense

Income tax expense on underlying operating profit before tax increased by \$1.0 million to \$6.5 million and the effective rate was 29.0% (2009: 28.9%). The main contributor to the rate being lower than Australia's corporate 30% tax rate is that 17% is payable on Singapore profits.

Reported income tax expense of \$6.3 million (2009: \$5.4 million) was 27.3% (2009: 27.5%) of reported profit before tax. The effective tax rate is lower than underlying operating income tax due to the benefit from \$0.3 million (2009: \$0.2 million) investment allowance on qualifying capital expenditure and utilisation of previously unrecognised capital losses to reduce the tax payable on asset sale gains. In addition, the previous corresponding half included a favourable \$0.2 million prior period amount.

Commentary on the Results (continued)

For the half year ended 30 June 2010

Prepaid funeral funds

At 30 June 2010, prepaid funeral funds under management, including customer instalment amounts receivable, not recorded as an asset on InvoCare's balance sheet amounted to \$264 million (31 December 2009: \$272 million and 30 June 2009: \$244 million). The prepaid funds will be recognised in sales and operating profit in future years when the prepaid services are performed and monies redeemed from the prepaid trusts.

After equity market recoveries during 2009, temporary asset tilts away from equities during the global financial crisis were reversed. However, as equity market values and returns declined during the second quarter of 2010, towards the end of May 2010 once again the main fund tilted back to cash (ie. term deposits) reducing its equity allocation to 53% by 30 June 2010, having been as high as 70% earlier in the half. The following table shows the asset allocations and annual returns across all the group's prepaid funeral funds.

	30 June 2010	31 December 2009	30 June 2009
Prepaid funds under management	\$264m	\$272m	\$244m
Asset allocation			
Australian equities	47.1%	62.2%	28.4%
International equities	1.3%	1.4%	1.5%
Property	0.9%	1.0%	1.0%
Fixed interest	10.5%	9.5%	9.3%
Cash	40.2%	25.9%	59.8%
Gross annual returns for all fund assets *			
1 year ended	8.1%	16.2%	(3.3%)
3 years ended	(0.2%)	3.6%	2.9%
5 years ended	6.6%	8.4%	7.9%
7 years ended	8.6%	9.5%	7.6%

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

The overall annual return of all funds to 30 June 2010 was 8.1% (close to benchmark of 8.3%). The returns for the 2010 first half were negative 7%pa, compared to positive 24%pa in the second half of 2009.

The estimated surplus, or additional margin, included in the funds at 30 June 2010 was negative \$3 million (31 December 2009: positive \$10 million). Importantly, by 17 August 2010, the surplus has recovered to an estimated \$2 million.

The longer term objective is to continue rebuilding the surplus so that it contributes positively to InvoCare's annual results upon delivery of the prepaid services and redemption of monies from the funds, as it had been doing before the GFC. InvoCare is represented on, but is unable to control, the investment committee of the main funeral fund which is held by the Over Fifty Guardian Friendly Society and where possible makes representations to influence decisions on that fund's asset allocations. Despite the volatility in investment markets over the last few years, InvoCare remains committed to growing its prepaid funerals business.

Commentary on the Results (continued)

For the half year ended 30 June 2010

Cash flow highlights

	Half year to 30 June 2010 \$m	Half year to 30 June 2009 \$m	Full year to 31 December 2009 \$m
Net cash provided by operating activities	18.3	15.3	38.3
Proceeds from sale of property, plant and equipment	2.0	0.1	0.3
Purchase of businesses, net of cash acquired	(7.8)	-	(0.3)
Purchase of property, plant and equipment	(5.0)	(5.6)	(13.9)
Net cash used in investing activities	(10.8)	(5.5)	(13.9)
Net increase in borrowings	5.0	1.0	(5.0)
Payment of dividends – InvoCare Limited shareholders	(12.6)	(10.3)	(19.0)
Shares acquired by InvoCare Deferred Employee Share Plan Trust	(1.3)	(0.9)	(0.9)
Net cash used in financing activities	(8.9)	(10.2)	(24.9)
Net increase/(decrease) in cash held	(1.4)	(0.4)	(0.5)
Cash and cash equivalents at the beginning of period	5.5	6.4	6.4
Effect of exchange rate change	-	(0.3)	(0.4)
Cash and cash equivalents at the end of period	4.1	5.7	5.5

Operating cash flows were \$3.0 million higher than the corresponding period. The stronger EBITDA performance included previously deferred crypt sales recognised upon completion of construction and improved memorial sales, commonly sold on instalment payment terms. As anticipated, the working capital impacts of these recognised sales and outlays for crypt construction has resulted in a lower than usual conversion of EBITDA to cash in the period, as shown in the table below.

	Half year to 30 June 2010	Half year to 30 June 2009	Full year to 31 December 2009
Operating EBITDA	33.0	29.3	65.2
Cash flow			
Cash provided by operating activities	18.3	15.3	38.3
Add/(less):			
Finance costs	5.4	5.6	11.0
Income tax paid	5.6	7.2	13.8
Interest received	(0.1)	(0.1)	(0.1)
Ungearred, tax free operating cash flow	29.3	28.0	63.1
Proportion of EBITDA converted to cash	89%	96%	97%

Some surplus property assets sold in the period were the main source of \$2.0 million asset sale proceeds.

The payments for the acquisition of the WN Bull Funerals business in Sydney amounted to \$7.8 million, with further payments for a property (\$2.0 million) and an earnout (\$0.3 million) anticipated over the next two years.

Commentary on the Results (continued)

For the half year ended 30 June 2010

Capital expenditure payments comprised the following:

	Half year to 30 June 2010	Half year to 30 June 2009	Full year to 31 December 2009
Refurbishments and facility upgrades	1.2	1.8	3.0
Motor vehicles	1.9	1.0	3.8
Cremators	0.8	0.2	2.0
Other assets	1.1	2.6	5.0
Total capital expenditure	5.0	5.6	13.8

The 2009 full year final dividend of 13.75 cents per share was paid in April 2010 (April 2009: 13.0 cents per share). The DRP participation for this was 10% (as compared to averaging approximately 25% in previous dividends), which resulted in a higher dividend payment than the corresponding period.

Shares amounting to \$1.3 million were acquired during the half by the InvoCare Deferred Employee Share Plan Trust in connection with long term, share-based incentives for senior management. Further details about employee incentive plans may be found in the Remuneration Report included in the Group's 2009 Annual Report.

Bank debt facilities

The Group's debt financing facilities maturing in January 2011 are being replaced with new facilities expected to be in place from the beginning of September 2010 subject to finalisation of legal documentation currently underway. The new unsecured, non-amortising facilities provide a total commitment of \$255 million (an increase of \$75 million from the previous \$180 million facilities), spread evenly across three major banks (ANZ, NAB & CBA) and split over three tranches with maturity dates ranging from 3 years to 5 years. These new facilities provide additional capacity for the group to pursue further growth opportunities over the next five years.

The new facilities' covenant ratios are calculated on a rolling twelve month basis with the ratio of Net Debt to EBITDA (adjusted for acquisitions) required to be no greater than 3.5 (previously 3.75) and the ratio of EBITDA to net interest required to be greater than 3.0 (the same as previous facilities). At 30 June 2010, these ratios were 2.2 and 6.2 respectively, comfortably meeting both the former and new facilities' covenants.

Due to credit market tightening and the global financial crises, new debt funding costs are higher than the Group's previous facilities which were established in 2005. Assuming 30 June 2010 debt levels and leverage, overall annual margin, establishment and undrawn commitment costs (excluding the relevant base floating reference rate, eg. BBSY) on the new debt will be approximately \$2.7 million or 170 basis points higher than the previous facilities.

At 30 June 2010, gross borrowings were \$158.9 million, compared to \$153.9 million at 31 December 2009 and \$159.9 million at 30 June 2009. Interest rate swap contracts for \$152.9 million or 96% of this debt have fixed the interest rates through to the expected maturity of the old facilities. At balance date the effective average variable interest rate was 6.5% inclusive of swaps and margins. It is intended that additional interest rate hedging contracts will be executed during the second half to minimise exposure to future variable interest rate movements under the new debt facilities.

Commentary on the Results (continued)

For the half year ended 30 June 2010

Outlook

Since 30 June, InvoCare has experienced continuation of reduced numbers of deaths in its funeral markets, consistent with the 1% decline in the first half. Average funeral prices, however, have been sustained, mitigating the lower volumes. First half levels of cemeteries and crematoria memorial sales and average contract values have also been sustained since 30 June. However, due to a high 2009 second half base, the cemeteries and crematoria growth experienced in the first half is not expected to be repeated in the second half of 2010.

Equity market values have improved since 30 June and consequently the prepaid funeral fund surplus is estimated to have recovered to be \$2 million by 17 August 2010. At current asset allocations, each 1% change in equity values impacts the surplus by \$1.4 million.

There are ongoing discussions with some small business owners, although there is no certainty any of these discussions will result in a successful purchase. At this point in time, the likely acquisitions are smaller, "bolt on" businesses and InvoCare does not expect a material acquisition.

Three new funeral home locations are expected to be opened before year end, although their contribution to 2010 results will be minor. In addition to opening new locations, existing premises refurbishments, cremator replacements and motor vehicle replacements are continuing and total capital expenditure for 2010 is expected to be approximately \$15 million.

Other Information

For the half year ended 30 June 2010

Net Tangible Asset Backing per Share	Consolidated Entity	
	30 June 2010	30 June 2009
	\$'000	\$'000
Net assets	81,504	66,093
Add deferred tax liabilities	29,786	28,886
Less intangible assets	(63,538)	(59,435)
Net Tangible Assets	47,752	35,544
Number of shares outstanding	102,069,091	101,366,263
Net Tangible Assets Per Share	\$0.47	\$0.35

Acquired or Disposed of Controlled entities

During the half year ended 30 June 2010, the Group did not gain nor lose control of any entities.

Dividends and distributions

The 2009 final fully franked dividend of 13.75 cents per share, totalling \$14.0 million, was paid to shareholders of InvoCare Limited on 9 April 2010. This amount included \$1.4 million reinvested by shareholders under the Dividend Reinvestment Plan ("DRP") and the Company issued the required DRP shares.

A 2010 interim, fully franked dividend of 13.0 cents per share (2009: 11.5 cents per share) will be payable on 8 October 2010.

Dividend reinvestment plan in operation

The Company's DRP will apply to the above interim dividend. Eligible shareholders may elect to reinvest some or all of their dividend in ordinary shares of the Company.

In the operation of the DRP, InvoCare may, in its discretion, either issue new shares or cause existing shares to be acquired in the market for transfer to shareholders, or a combination of both options. For the 2010 interim ordinary dividend, it is intended that a broker will be appointed to buy shares on the market. Any shortfall in DRP take-up will not be underwritten nor will shares be issued with a discount to the market price. The market price will be calculated as the average of the daily volume weighted average sale price, rounded down to the nearest cent, of InvoCare shares sold in the ordinary course of trading on the ASX during the period of ten (10) trading days after, but not including, the record date, 17 September 2010. The ex dividend date will be 13 September 2010.

In order to participate in the DRP, the Company's share registry must receive the election notice by the record date, 17 September 2010.

Allotment of the issued capital in respect of the DRP will take place on 8 October 2010.

Associates and Joint Ventures

At 30 June 2010, the Company was not associated or related to any associates or joint venture entities.

Accounts and audit

The accounts are not subject to audit dispute or qualification.

Other Information

For further information on the Company's half year ended 30 June 2010 results, refer to the Company's Interim Financial Report and Investor Presentation.