

Group financial review

Financial Highlights

	2005 \$'m	2004 \$'m	Movement %	1st Half 2005 \$'m	1st Half 2004 \$'m	Movement %	2nd Half 2005 \$'m	2nd Half 2004 \$'m	Movement %
Sales Revenues	148.2	148.3	-	69.6	70.6	-1	78.6	77.7	+1
Operating EBITDA ⁽ⁱ⁾	45.4	43.9	+3	19.3	18.8	+3	26.0	25.1	+4
Operating Margin ⁽ⁱⁱ⁾	30.6%	29.6%	+3	27.8%	26.7%	+4	33.1%	32.3%	+3
Profit on Sale of Assets	2.0	2.0	-	0.4	0.1	+300	1.6	1.9	-16
Finance Costs	12.8	11.9	+8	5.9	6.2	-4	6.9	5.7	+21
Income Tax Expense	8.8	8.8	-	3.2	3.2	-	5.6	5.6	-
Effective Tax Rate	30.4%	31.2%	-3	29.1%	32.4%	-10	31.1%	30.6%	+2
Profit After Tax	20.1	19.3	+5	7.8	6.6	+18	12.3	12.6	-2
Basic Earnings per Share	21.0	20.4	+3	8.2	7.1	+15	12.7	13.3	-5
	cents	cents		cents	cents		cents	cents	

(i) Operating EBITDA excluding Asset Sales

(ii) Operating EBITDA excluding Asset Sales/Sales Revenues

Earnings

InvoCare performed strongly throughout the year even though there was a lower than expected number of deaths. Improved mix and cost control over key employee and marketing expenses throughout the year enabled the company to increase Profit after Tax by 5% to \$20.1 million and increase both Operating Margin and Basic Earnings per Share by 3%.

Sales Revenue

Strong average sale performance in both funerals and cemeteries and crematoria largely offset the 4-5% estimated decline in deaths in the markets in which InvoCare operates and a small decline in funeral market share caused in part by the sale or closure of several non strategic funeral homes.

Overall funeral market share on a year on year basis was down slightly, however, there were minor market share improvements noted in the second half. Funeral sales revenues for the year represented 65.9% of overall sales revenues for the year, in line with 65.5% in 2004.

Cemetery and crematoria revenues were also impacted by increased competition in the Sydney market, which was more than offset by improved pre need sales and the recognition of crypt sales of approximately \$1.0 million in the second half.

Dividends

The directors have declared a final fully franked dividend of 9.5 cents per share which, together with the interim fully franked dividend of 7.0 cents per share paid in October 2005, results in the total ordinary dividends for the year of 16.5 cents per share. This is 7.1% higher than the ordinary dividends in the previous year. In addition, in May 2005, the company paid a fully franked special dividend of 10.5 cents per share.

Locations and Asset Sales

Three new leased funeral locations were opened in 2005 with a further four funeral locations planned for 2006.

Proceeds from the sale of non-strategic locations amounted to \$3.0 million (2004: \$3.7 million), generating a before tax gain on disposal of \$2.0 million (2004: \$2.0 million). The non strategic properties sold were the result of management's ongoing asset performance assessment.

A further location has been identified for sale and has been disclosed as a current asset on the balance sheet. The proceeds from this location are expected to be in the vicinity of the location's carrying value of \$3.0 million.

Finance Costs

The Group's finance costs increased by 8% to \$12.8 million and included a non cash \$2.0 million expense, required by AIFRS, to write off the balance of establishment costs relating to former borrowing facilities. These borrowings were replaced in December 2005 by an unsecured, non amortising \$165.0 million facility which was drawn to \$140.0 million at the end of 2005.

Income Tax Expense

The Group's income tax expense was \$8.8 million reducing the overall effective rate to 30.4% in 2005, from 31.2% in 2004.

Acquisitions

The Group completed the acquisition of Ann Wilson Funerals in December 2005, for \$4.1 million. This business generated revenues in 2005 amounting to \$2.3 million from its two locations on the northern beaches of Sydney.

Prepaid Funerals

	2005 \$'m	2004 \$'m	Movement %
Prepaid Funeral Funds	220.9	198.6	+11
Gross Returns			
12 months ended	14.3%	17.2%	-17
3 years ended	13.0%	7.4%	+76
5 years ended	8.7%	7.8%	+11
7 years ended	7.0%	n/a	n/a

Gross returns exclude investment management fees and administration fees (currently totalling 1.9%)
Percentage of 2005 funerals performed previously prepaid 14% (prior year 13%)

Prepaid Funeral Funds held in trust and yet to be performed and recognised increased 11% to \$221 million. The asset allocation of these funds under administration were invested 55% Australian equities, 2% international equities, 5% Australian

property, and 38% cash and fixed interest. The company closely monitors the asset allocation of the funds under administration and the asset manager performance.

Cash Flow Highlights

	2005 \$'m	2004 \$'m
Net cash provided by operating activities	25.6	22.9
Proceeds from sale of property, plant and equipment	3.0	3.7
Purchase of subsidiary net of cash acquired	-3.4	-
Purchase of property, plant and equipment	-6.9	-4.0
Net cash used in investing activities	-7.3	-0.3
Proceeds from issue of ordinary shares	2.2	0.6
Proceeds from borrowings	159.0	2.0
Repayment of borrowings	-150.5	-25.5
Payment of dividends – InvoCare Limited shareholders	-25.5	-6.1
Other	-0.1	-0.1
Net cash used in financing activities	-15.0	-29.1
Net increase/(decrease) in cash held	3.3	-6.5
Cash and cash equivalents at the beginning of the year	0.7	7.1
Cash and cash equivalents at the end of the year	4.0	0.7

Cash and cash equivalents at 31 December 2005 was \$4.0 million, representing an increase of \$3.3 million for the 2005 year. Operating cash flows remained strong and increased by \$2.7 million (or 12%) to \$25.6 million for the year, largely as a result of cost control and reduced finance costs impacts.

Asset sale proceeds of \$3.0 million and the \$2.2 million received upon exercise of employee share options partly funded a special dividend in May 2005 of 10.5 cents per share. Total dividends paid to shareholders during 2005 was \$25.5 million.

Additional net borrowings of \$8.5 million allowed the company to invest in capital expenditure of \$6.9 million, including strategic capital expenditure of \$2.6 million for condolence lounges and chapels. It also in part funded the initial acquisition consideration of \$3.4 million for the Ann Wilson Funerals business.

AIFRS

The company completed its transition to AIFRS resulting in the following major adjustments:

- a charge of \$1.4 million after tax relating to the write off of borrowing costs was incurred during 2005
- a \$44.9 million reduction in 2004 opening retained earnings, primarily as a result of the recognition of deferred tax liabilities and impairment losses on cemetery and crematorium land. This adjustment may reduce by \$34.8 million if the standard setting authorities recommendations are adopted
- the reversal of goodwill amortisation of approximately \$2.5 million in 2004
- the expensing of share based payments resulting in additional employee benefits expense for 2005 of \$0.9 million and for 2004 of \$0.4 million.

Importantly, the AIFRS adjustments should not materially adversely impact or restrict InvoCare's current and future operational profitability, cash flows or dividend capability.

Banking Facilities

In December 2005, the company refinanced its debt facility achieving estimated annual cash savings of \$1.0 million assuming debt levels of \$140.0 million. Key terms of the new financing facility are as follows:

- 5 year term
- facility limit of \$165.0 million, including a working capital facility of \$5.0 million

- non secured and non amortising
- previous banking covenants restricting dividends to 75% of Net Profit before Goodwill Amortisation removed

At 31 December 2005, the facility was drawn to \$140.0 million.

Hedging

At the time of refinancing the debt facility, old and new interest rate swap contracts were blended and extended by the company, resulting in an annual non cash expense of approximately \$0.8 million before tax for the next three years.

New interest rate swaps, totalling \$130.0 million, meant the Group's borrowings were 93% hedged at 31 December 2005.

2006 Outlook and Beyond

InvoCare's attractive and proven business model delivered another strong performance in 2005. The company is now well positioned to capitalise on its growth opportunities, including the expected increase in the number of deaths trend and to growing market share. The key strategies and impacts to InvoCare's financial future are expected to be:

- growing through acquisitions, new locations, investing strategic capital expenditure in existing locations and ongoing operational improvements
- servicing the projected ABS death rate growth per annum from 2005 to 2011 of 1.2% and from 2012 to 2021 of 1.4%
- improving revenues through pricing
- promoting pre need Cemetery and Crematoria products revenues to mitigate the impact of increased crematoria competition
- maximising investment returns from prepaid funeral funds held in trust

Future capital management will be dependent upon trading and economic conditions, and requirements for acquisition/expansion opportunities.

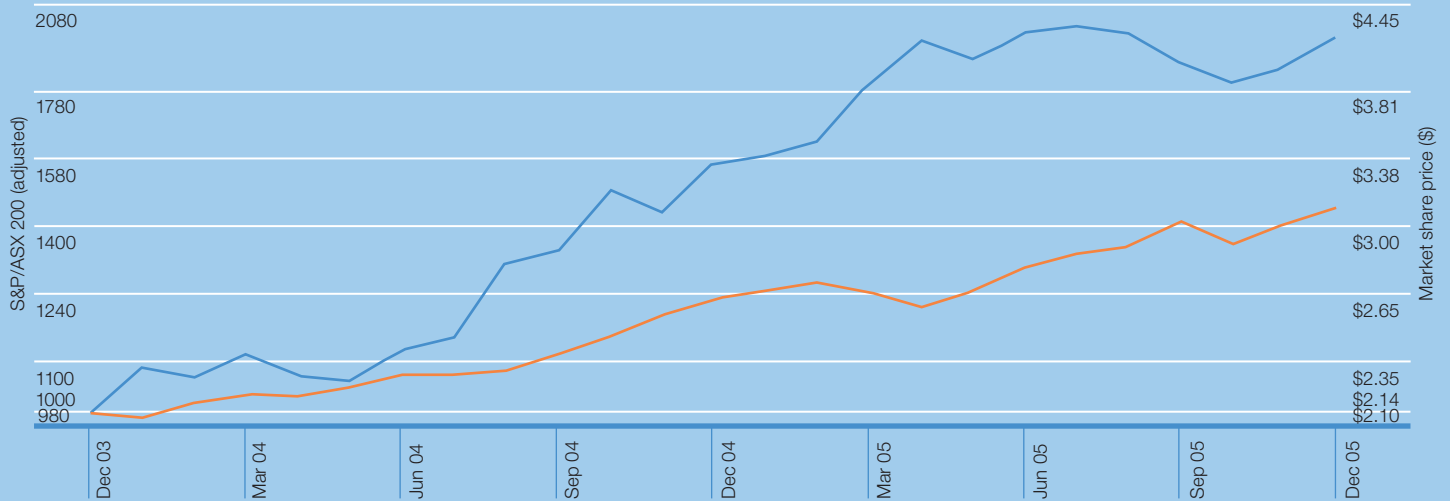
Subject to trading and economic conditions the directors intend to maintain a dividend pay out ratio of 75% of profit after tax.

Total shareholder returns

The increase in share price during calendar 2005 of 84 cents to \$4.19 together with the dividends paid in the year of 26.5 cents gave a total shareholder return of 33% on the opening share price of \$3.35. The share price performance since the company listed in December 2003 has exceeded the S&P/ASX 200 Index as shown on the chart below.

Market share price vs ASX/S&P 200

— InvoCare market share price — S&P/ASX 200 (adjusted)



Mr Andrew Smith JP BCom MBA CA Chief Financial Officer

Andrew Smith was appointed Chief Financial Officer on 16 January 2006. Andrew brings over 15 years financial expertise and extensive commercial and retail experience in senior executive roles. These included Chief Financial Officer and Company Secretary of listed retailers Brazin Limited and OrotonGroup Limited. Andrew was also the Financial Controller for Sales and Marketing at a major international fast moving consumer goods company, an Internal Audit Manager for a global insurance company and an Audit Senior at KPMG.

Andrew holds a Bachelor of Commerce from the University of Queensland and an MBA (with Distinction) from the University of New England. Andrew is a Justice of the Peace and also a member of the Institute of Chartered Accountants in Australia.

From left to right: Andrew Smith, Kenneth Mealey (Company Secretary) and Phillip Friery (Group Finance Manager).