INNOVATION

InvoCare

Innovation Vocation Care

VOCATION

2019 ANNUAL REPORT

CARE

“We’re here to support our clients, their families and friends, at a pivotal time in their lives. We do this by being compassionate, exceeding expectations and delivering outstanding service.”

Allambe Memorial Park, Nerang QLD. Artist impression

CONTENTS

InvoCare Limited
ABN **42 096 437 393**

PERFORMANCE HIGHLIGHTS

Operating financial summary

SALES REVENUE	OPERATING EBITDA	OPERATING EARNINGS AFTER TAX	REPORTED PROFIT [1]	OPERATING EPS
$494.1m	$144.4m	$59.2m	$63.8m	51.7¢
↑ 3.5%	↑ 21.4%	↑ 19.6%	↑ 54.6%	↑ 14.4%

Underlying EBIT business lines

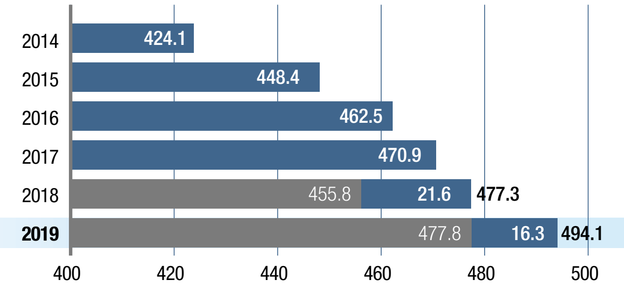
FUNERALS	MEMORIAL PARKS*	CORPORATE SERVICES	PREPAID FUNERALS
$79.4m	$44.4m	($32.0m)	10%
↑ 15.4%	↑ 16.1%	↑ 3.9%	FUM growth

Pillars of growth

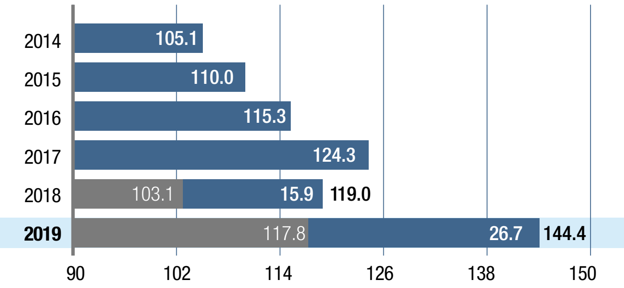
DEATHS [2]	MARKET SHARE [3]	FUNERAL CASE AVERAGE	OPERATING MARGIN	NPS [4]	PROTECT & GROW
↑ 2.9%	↑ 20bps	↑ 2.1%	↑ 430bps	=+78	106 locations completed

** Excludes pets* *1 After non-controlling interests* *2 Internal estimate* *3 IVC Group* *4 Australia & New Zealand*

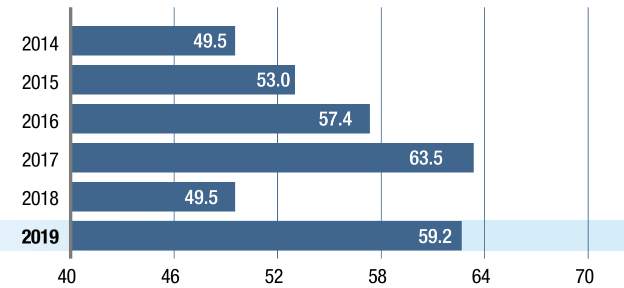
Operating and underlying* sales revenue ($m)



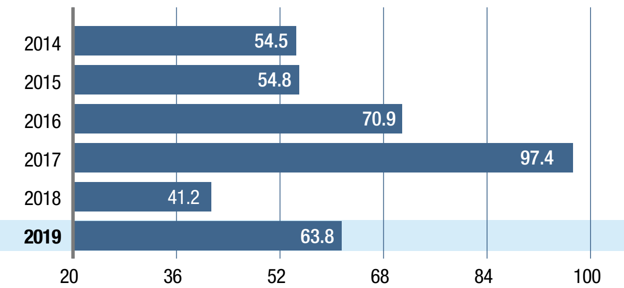
Operating and underlying* EBITDA ($m)



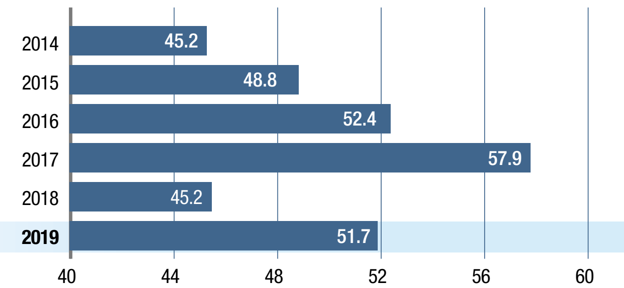
Operating earnings after tax ($m)



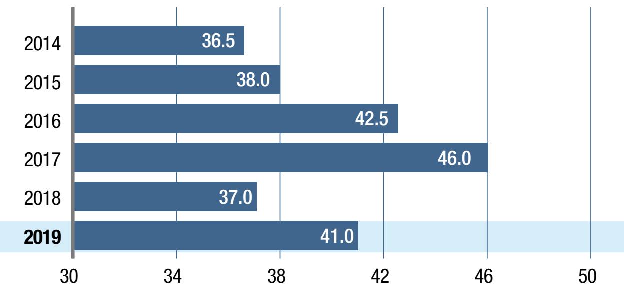
Profit after tax attributable to members ($m)



Operating earnings per share (¢ per share)



Ordinary dividends (¢ per share)



** Underlying figures remove inflating effect of AASB 15 and AASB 16 reporting changes*

CHAIRMAN'S MESSAGE

Looking beyond Protect & Grow

As demand in 2019 for InvoCare's funeral, crematoria and cemetery services partially recovered from the deeper than anticipated decline in 2018, it was pleasing to see clear evidence to support the Board's decision to invest in Network and Brand Optimisation (NBO) as a key strategy to underpin InvoCare's future growth.

In addition to opportunities for growth driven by acquisition, the Board recognises that InvoCare increasingly needs to adapt to changing demand drivers affecting our existing network of funeral locations. The importance of offering contemporary, client-customised experiences in digitally equipped environments with ample parking has been starkly confirmed by the performance of NBO versus non-NBO locations. It is clear that once the effects of refurbishment downtime are accounted for, post-NBO locations are pleasingly in line with expectations and justify our confidence in future sustainable growth.

Looking ahead, the Board is highly conscious of shareholders' expectations to balance the short-term negative impacts of capital investment expenditures with the aim for annual growth in earnings per share. Now equipped with two years of learnings , we have adjusted the planned rate of spend on existing location renovations to achieve a balance between EPS growth and balance sheet leverage. However, the fundamental importance of carrying through with planned levels of NBO investment across the full breadth of our existing locations is not a matter for debate: the issue is simply one of timing.

Apart from our upgraded facilities, the evidence is also increasingly clear that we need to continue to focus on becoming a more flexible, customer-centric service culture. For example, our long-term commitment to meeting culturally specific needs in our memorial parks has been key to their growth in market share. We are now placing increasing priority on extending this cultural flexibility across the range of our funeral service offerings. We expect the investment to date in our market research will begin to bear fruit as we broaden the demographic appeal of our core funeral service offerings.

The third plank of our new growth focus has been to develop the Enterprise Resource Planning (ERP) system required to drive operational efficiencies and enable more sophisticated analysis of our operational performance. Based on the output of the first phase of the implementation, we believe the system will provide richer data-driven insights and opportunities to better serve our client families and drive further efficiencies.

We believe that the fundamental elements are now in place for InvoCare to step up to improved management performance across our infrastructure, supply chain, human resource and financial management. Workplace Health and Safety (WHS) and Environmental, Social and Governance (ESG) performance are two areas of increasing Group focus which we expect to drive improvement in Group performance.

Having recognised as far back as 2014 that we could no longer sustain historical growth levels based predominately on core market acquisitions, we are very pleased to see that the broad-reaching commitment to organisational evolution implemented as the Protect & Grow strategy in 2017 is now proving its worth as a fundamental platform for sustainable growth.

I would like to acknowledge the resilience and commitment of our people, right across the organisation, in the way that they have risen to the challenges of fundamental organisational change. The fact that we have sustained high levels of employee engagement and customer satisfaction throughout this challenging period is testament to their loyalty and willingness to move with the times. I also extend the thanks of the Board to our CEO, Martin Earp, and the entire executive team for their leadership and perseverance through this transformational journey.

We remain confident in our underlying fitness to drive future growth for our shareholders. The potential impact of the global COVID-19 pandemic is a source of uncertainty for all businesses and we are rapidly developing contingencies and plans to meet the challenge. We remain committed to providing caring support for client families by flexibly evolving our services and capabilities to meet their needs.

2019 dividend

With our basic earnings per share impacted by funds under management returns, the Board has once again looked to underlying, operating earnings per share as the most appropriate guide to determining the rate of dividend for 2019.

Conscious of the challenges of capital management associated with on-going refurbishment and enhancement of our core business infrastructure, we set the 2019 full year payout ratio at 79.3%, which is consistent with our policy, and translates to a final dividend of 23.5 cents per share providing for a full-year payout of 41.0 cents, 10.8% up on 2018.

Bart Vogel

Chairman

Five year financials

$'000	2019	2018	2017	2016	2015
Operating sales revenue	**494,112**	477,337	470,852	462,476	448,359
Operating EBITDA	**144,433**	118,998	124,316	115,344	110,089
Operating EBITDA margin	**29.2%**	24.9%	26.4%	24.9%	24.6%
Operating earnings after tax	**59,202**	49,496	63,526	57,417	52,999
Operating earnings per share (cents)	**51.7**	45.2	57.9	52.4	48.4
Profit after tax attributable to members	**63,752**	41,224	97,439	70,949	54,844
Basic earnings per share (cents)	**55.8**	37.8	88.8	64.7	50.1
Dividend paid in respect of the financial year (cents)	**41.00**	37.00	46.00	42.50	38.00
Ungeared, tax free operating cash flow	**118,776**	104,222	116,891	105,007	99,545
Proportion of EBITDA converted to cash	**82%**	88%	94%	91%	90%
Actual capital expenditure	**65,289**	84,120	47,471	30,321	22,035
Net debt	**352,379**	393,469	227,547	222,927	222,093
Operating EBITDA / Net interest (times)	**10.6**	9.6	13.8	11.0	9.2
Net debt / EBITDA (times)	**2.4**	3.3	1.8	1.9	2.0
Funeral homes (number)	**268**	255	228	233	231
Cemeteries and crematoria (number)	**17**	16	16	16	16

Operating earnings after tax excludes the net gain/(loss) on prepaid contracts, costs associated with the administration of prepaid contracts, commissions received, gain/(loss) on sale, disposal or impairment of non-current assets and non-controlling interests.

OPERATING EARNINGS AFTER TAX

↑ 19.6%

Operating earnings after tax increased to $59.2 million

DIVIDENDS

↑ 10.8%

Dividends for the year increased to 41¢ per share

CASH CONVERSION RATIO

82%

Consistently strong cash conversion ratio with 82% of operating EBITDA converted to cash

Bart Vogel

CEO'S MESSAGE

Building the platform for sustainable growth

While 2018's unprecedented 4.4% decline in the number of deaths in our main market of Australia severely impacted the Group's EBITDA performance in the previous comparable year, the estimated increase of 3.3% in 2019 deaths within the Australian market has brought earnings back in line with historical norms. This is despite the ongoing drag of downtime and expenditures associated with investing in our locations, our operational centres, our people and our business systems.

Martin Earp

With the change in Australia's financial reporting regulations affecting comparability across previous years, InvoCare's overall performance management is now focussed on underling EBITDA, which excludes the impact of financial results of non-operating activities and recent accounting standards changes. It is pleasing to see that underlying EBITDA increased by 14.2% in 2019 compared to the previous comparable period (PCP), well ahead of the underlying growth in market demand. This has underpinned a 14.4% uplift in operating earnings per share, and net profit after income tax attributable to ordinary equity holders has risen by 54.6% to $63.8 million.

InvoCare delivered these positive results due to a variety of factors which reflect our increasingly flexible, contemporary and competitive approach to managing business performance.

Business acquisitions continue to provide a key growth impetus, albeit that the focus is on regional areas identified as long-term growth markets due to sea- and tree-change migration by older urban dwellers. The recent regional acquisitions have outperformed expectations, and this is in no small part driven by the level of effort and commitment demonstrated by these new members of our operational team.

InvoCare's memorial parks have also performed strongly, contributing 10% growth in underlying EBITDA and a 2.4% increase in EBITDA margin off the back of a 4.5% increase in sales. These results reflect the success of ongoing investment in more relevant memorial product that meet the multi-cultural market needs of Sydney and Brisbane.

The performance of our funeral business continues to be impacted by the need to undertake long overdue renovations to our existing metropolitan funeral locations, as well as upgrading our centrally located operational service facilities. The overall results for the funerals line of business reflects the impost associated with this investment however in 2019 we began to see the benefits start to flow through the business, with over 50% of our locations having been renovated since 2017.

In funeral locations that have not yet been renovated InvoCare's market share decline continues to accelerate, confirming customers' growing preference for modern contemporary up-lifting facilities. Overall, the NBO investment is driving an increase in earnings due to a combination of increasing market share and increasing demand for the additional services now provided, all of which are designed to improve the quality of the funeral experience.

We reduced the number of renovations in 2019 in order to assess the performance of the first phase of renovations, free up resources for the full roll-out of the new ERP system and to allow for the development of local management skills, particularly in the key areas of customer service and safety.

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2 DIRECTORS' REPORT
3 FINANCIAL REPORT
4 OTHER INFORMATION

Our focus on our people and culture is critical to our success and in 2019 we launched our local leadership program (Aspire) and placed a continued focus on our customer service 'masterclass' program and One InvoCare culture. The very strong net promoter score (NPS) performance and high employee engagement reflect the ongoing levels of staff commitment and loyalty throughout these challenging times of across-the-board change.

The net outcome for our funeral line of business has been a 4.7% uplift in sales associated with an 11.1% uplift in EBITDA and 1.5% increase in EBITDA margin.

Looking ahead, InvoCare is confident that the combination of investment into our locations along with on-going regional and adjacent market acquisitions, supported by a strong underlying demographic growth in the number of deaths, will continue to sustain strong underlying earnings per share growth for many years to come.

As this report was being finalised, the potentially disruptive impacts of the COVID-19 pandemic are becoming increasingly apparent. We are closely monitoring developments and potential impacts to our operations and business plans. InvoCare has an active Business Continuity Plan that encompasses Crisis Management Plans to respond to adverse external events such as communicable health threats.

We anticipate the growing number of travel and event restrictions, in particular the imposition by Federal and State governments on mass events, may affect our ability to conduct normal funeral services and this in turn will impact the number of NBO renovations previously envisaged. We are now focussed on developing contingency plans to address the potential impacts of COVID-19 to our business and expect that our ability to realise 2020 goals may be affected by the need to adhere to the social distancing guidelines and travel restrictions.

Subject to these uncertainties, the aim for 2020 is to largely complete the Protect component of our NBO strategy, whilst an increasingly conservative approach to our balance sheet means that investment in the Growth-focussed aspect of NBO will be deferred to minimise capital outlay. We will also consider carefully the ability of the Company to acquire high quality businesses in regional areas of Australia and further expansion into the pet cremation market segment.

Significantly, the result of planned investment and efforts in 2020 will see InvoCare continue its journey from an amalgam of traditional business practices driving growth through acquisitions, to a contemporary, innovative and customer focussed organisation capable of building on a solid platform of competitive advantage to deliver future growth.

In the short-term, we will do everything in our power to support the wellbeing of our people, our client families and the community members impacted by COVID-19. We will innovate as needed to ensure that our people can still work and our client families can come together to celebrate the lives of loved ones, even if that may require smaller or more virtual gatherings. Our commitment to innovation, vocation and care will never be more important to ensuring that meeting the needs of our client families is realised during these unprecedented and difficult times.

Martin Earp

Managing Director and
Chief Executive Officer

Rockingham WA

PROTECT & GROW, 2017-2020

2019 was the third year of implementation for our far reaching Protect & Grow strategy

Key Protect & Grow initiatives have included:

Protect

- Renovations of existing funeral locations ranging from substantial site enhancement to superficial refreshment
- Development and roll-out of a business-wide Enterprise Resource Platform (ERP) to enable increased management efficiencies
- Investment in local leadership development through the Aspire Leadership Program

Grow

- Investment in new shop-fronts to act as feeders for large funeral hosting sites, plus centrally-located operational centres to realise scale efficiencies across the network
- Development of new products and customer service capabilities designed to meet changing needs and expectations of increasingly diverse customer segments
- Strategic acquisitions in regional areas identified as high-growth zones due to migration of urban retirees (sea- and tree-changers)
- Extension into the adjacent market of pet cremations through a mixture of acquisitions and greenfield developments on existing Memorial Park sites

Kew, VIC. Artist impression

Glenside, SA

Wangara, WA

Outcomes and outlook

Investment in our core market funeral facilities under the Network Brand Optimisation (NBO) program has been completed across more than half of our existing network, including 9 substantially Enhanced sites and 73 Refreshed sites. 24 Growth sites have been added to the network while 3 metropolitan Operational Centres have now been completed.

As detailed in the Directors' Report, the uplift in performance of renovated sites is in line with our expectations, with substantially Enhanced sites delivering better than anticipated growth. In 2020 we will continue to focus on realising the benefits of NBO investment to date while easing back on growth investment to reflect a more conservative approach to managing the balance sheet, while aiming for positive EPS growth.

Roll out of the new ERP under the Compass program was a major focus for 2019, and is now largely in place, enabling substantial development in analysis, reporting and management to be undertaken in 2020. We anticipate significant efficiencies will flow from these efforts, particularly in relation to staffing levels and asset utilisation.

InvoCare made three strategic regional acquisitions in 2019 involving four funeral locations and one memorial park across the NSW South Coast and Queensland. The acquisitions made in 2018 have performed above expectations and made a significant contribution to our strong growth performance in 2019. A number of additional acquisitions have been evaluated and several are currently under negotiation.

Significant investment in new product development across our Memorial Park business line has created more than 2,200 new vaults, niches and crypts available across three sites, while extending the life of our Allambe Memorial Park facility by about 20 years. The benefits of new product availability was evident in 2019 and we expect they will substantially contribute to growth in 2020 and beyond. Acquisition of the Broulee Memorial Park has also extended our footprint in the NSW South Coast, complementing our funeral acquisitions in this key growth area.

Our move into pet cremations was consolidated in 2019 with two greenfield sites developed in NSW. Strong performance in the existing business that was acquired in 2018, driven by increased awareness and network support, has encouraged us to focus on further strategic acquisitions in 2020.

Terra Santa Crypts, Pinegrove Memorial Park, NSW

Allambe Memorial Park, Nerang QLD. Artist impression

SENIOR LEADERSHIP TEAM

Martin Earp

Managing Director and Chief Executive Officer

Josée Lemoine

Chief Financial Officer

Heidi Aldred

Company Secretary and Corporate Counsel

Damien MacRae

Chief Operating Officer

Fergus Kelly

Chief Marketing Officer

Amanda Tober

Group Executive People & Culture

Lachlan Sheldon

Group Executive Mergers & Acquisitions

Steve Nobbs

Executive General Manager – Cemeteries & Crematoria

FOCUS ON LEADERSHIP

Our regional and frontline leaders' ability to realise the potential inherent in new products and management practices is critical for driving growth by better meeting clients families' needs. InvoCare's People & Culture vision is to 'Enable a geographic regional management structure with empowered local leaders supported by experts in the field'.

> "One of the key goals of the three-year people plan is to enhance local leadership capabilities and the leadership pipeline"

The launch of the Aspire Leadership Program was a major achievement in 2019. This builds on inputs of a diverse stakeholder group from across Australia and New Zealand, which has been consolidated into the InvoCare leadership capabilities framework to clearly articulate what 'good' leadership looks like in our business.

The Aspire program targets Regional and Area Managers and similar levels from Memorial Parks and corporate functions. Running for six months, the program aims to deliver a significant capability uplift, feed the talent pipeline and demonstrate the career path for high potential employees. It incorporates online feedback from team members, face to face learning, virtual modules, self-paced and e-learning tasks, plus the completion of projects focussed on InvoCare business issues and supported by an executive sponsor, which enable participants to apply what they have learned to real situations.

After refinement in light of experience with the pilot program this critical initiative will become part of business as usual in 2020.

Also planned for 2020 is the development of a Management Essentials Suite to offer a range of modular learning solutions built around key capabilities for our Frontline Managers. The modular suite will enable consistent skills development across this large and geographically diverse group of leaders, supplemented as required by some face-to-face, leader-led learning opportunities including on-job coaching by direct managers.

THE CORE AND MORE

The ultimate goal of InvoCare's investment in people, places and practices through the Protect & Grow strategy is to equip InvoCare as the leading funeral services and memorialisation provider with the clear vision, effective management tools and excellent customer service capabilities required to drive sustainable growth by gaining market share and increasing case values in our core markets. Looking beyond the Protect & Grow strategy in 2020 – opportunities for regional acquisitions and growth into adjacent markets such as pet cremations will continue to underpin strong EPS performance. Increasingly we will look to develop new products and more flexible customer service capabilities to sustain growth rates above rising number of deaths in our contested markets.

As detailed in the InvoCare 2019 Sustainability Report, issued for the first time under a separate cover, many initiatives have been planned or implemented in 2019 that will contribute to our emergence as a contemporary business leader with long-term sustainable growth potential. These include increased focus on health and safety and cultural initiatives designed to develop a mutually supportive and inclusive One InvoCare team that embraces diversity. It also includes development of a comprehensive Environment, Social and Governance policy to drive best practice in management, data gathering and reporting, increasingly expected by employees and investors.

At the heart of our continued ability to grow lies the effort to better understand and evolve to meet the needs of our customers. NBO investments are creating the right environment to enable this goal, while People & Culture efforts are aimed at building the customer-centric ethic and flexible services required to adapt to increasingly diverse customer needs. As we move towards the conclusion of Protect & Grow, these initiatives are being complemented by an increased focus on evolving products and service offerings to directly target emerging needs.

Of particular importance over 2019 and into 2020 are our efforts to build more culturally diverse offerings into our core funeral service capabilities. We have already proven the value of culturally tailored offerings in our memorial parks business, where the long-standing multi-cultural unit has helped us to build a very strong position amongst the large Vietnamese, Chinese, Filipino and Korean communities living in NSW. Drawing on insights gathered through market research undertaken in 2019 we plan to develop a range of new funeral service offerings that will broaden our relevance across major cultural groups living in the communities that we serve.

Our brands and marketing messages will also continue to evolve to reflect changing needs and expectations amongst our target audiences. Research has also played a critical role in identifying the emergence of a new segments whose aspirations to celebrate the life of a loved one embrace highly individualistic experiences, enabled by new digital technologies and social norms. Much effort has been aimed at enhancing our digital capabilities and offerings to reflect the emergence of a digitally savvy client base, aimed both at winning their business and empowering their customer experience.

Forest Lawn Memorial Park, Macarthur, Sydney, NSW

Drawing on insights gathered through extensive market research undertaken in 2019 we plan to develop a range of new funeral service offerings.

DIRECTORS' REPORT – OPERATING AND FINANCIAL REVIEW

The directors submit their report on the consolidated entity comprising InvoCare Limited (the "Company") and the entities it controlled at 31 December 2019. InvoCare Limited is referred to as "InvoCare", the "Group" or the "consolidated entity" in this report.

Company review and principal activities

InvoCare is a leading international provider of funeral, cemetery, crematoria and related services and is listed on the Australian Securities Exchange (ASX: IVC). The Company is headquartered in Sydney, Australia with operations also in New Zealand and Singapore.

2019 financial highlights

2019 full year results have seen a strong bounce back in operating EBITDA growth of 21.4%. This result was driven by:

- The number of deaths increasing back towards the long term trend – deaths up 2.9% against a drop of 2.3% in 2018
- Strong performance from the renovated locations, which are delivering 8.5% improvement in EBITDA over unrenovated locations
- The benefit of recent acquisitions, delivering an additional $4.3 million of EBITDA YOY
- Effective cost control (comparative business costs decrease by 0.9%)
- Strong performance in the prepaid funds under management with growth >10% YOY

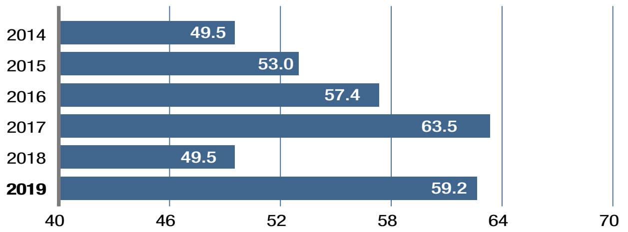
Operating earnings after tax increased ↑19.6% while profit after tax attributable to equity holders grew ↑54.6% to $63.8 million with an uplift in our operating sales revenue ↑3.5% and operating EBITDA ↑21.4%.

The Board has determined to issue a final dividend of 23.5 cents per share bringing the total dividend for 2019 to 41.0 cents, an increase of 4 cents or 10.8% on prior period.

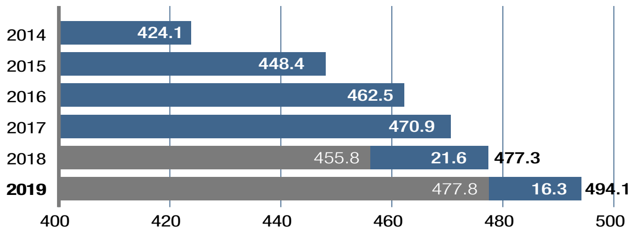
NOTE: Underlying Revenue and EBITDA is presented for historical comparison purposes and represents the Groups performance without including the impact of the recent accounting standard changes from AASB 15 and AASB 16.

Operating Revenue and Profit figures represent the Group's financial performance prepared in accordance with all current accounting standards.

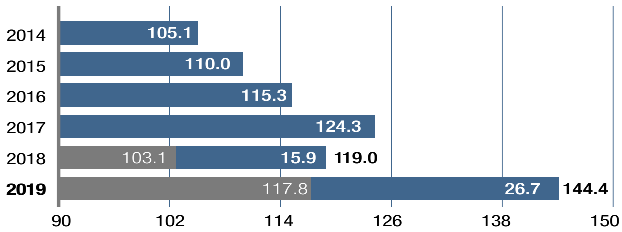
Operating earnings after tax ($m)



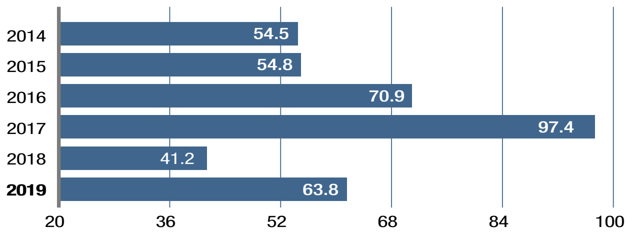
Operating and Underlying* sales revenue ($m)



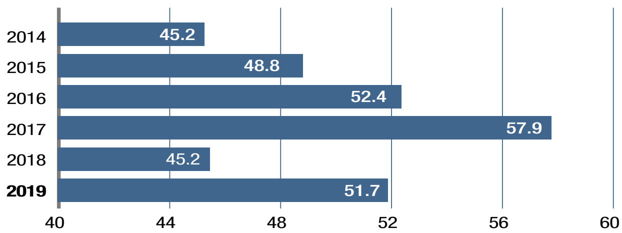
Operating and Underlying* EBITDA ($m)



Profit after tax attributable to members ($m)



Operating earnings per share (cents per share)



DIRECTORS' REPORT – OPERATING AND FINANCIAL REVIEW

Overall summary of 2019 results

The Group delivered strong Operating EBITDA growth in 2019 (+21.4%), underpinned in part by the number of deaths growing at 2.9%, although deaths still lag behind 2017 levels.

Notwithstanding the strong headline Group performance, the traditional funeral business continues to face the longstanding headwind of declining market share. As previously reported, this was the main driver behind our Protect & Grow strategy. This loss of market share has been driven by ageing locations, changing customer needs and the need to transition new local leaders into the operational business. Protect & Grow has been a success to date but whilst it is being implemented it does negatively impact performance due to the closure of locations for renovation, ramp up post reopening and the rollout of the new ERP system. The combination of these factors resulted in year on year comparable EBITDA growth of 4.7% in Australian Funerals and a decline of 12.6% in New Zealand.

With regard to New Zealand, the combination of the initial purchase price paid for the assets and the subsequent operational performance has prompted the impairment in goodwill within the New Zealand business by $24.4 million.

Despite the drag on earnings from addressing the long-standing challenges of the traditional funeral business, underlying sales revenue grew by 4.8%, with contributions from recent acquisitions, renovated locations and strong memorial sales from recently developed crypt complexes. Underlying EBITDA grew by 14.2% supported by increased gross margin and cost control. Operating earnings after tax grew by 19.6% whilst net profit after tax attributable to ordinary equity holders of InvoCare Limited is up by 54.6%, boosted by the growth of Funds under Management, with basic earnings per share up by 47.6% (including the impact of the impairment of the New Zealand goodwill).

The chart below visualises how changing accounting standards have impacted the EBITDA numbers being reported, highlighting how the AASB 15 unwind and AASB 16 has contributed to the increase in operating EBITDA.

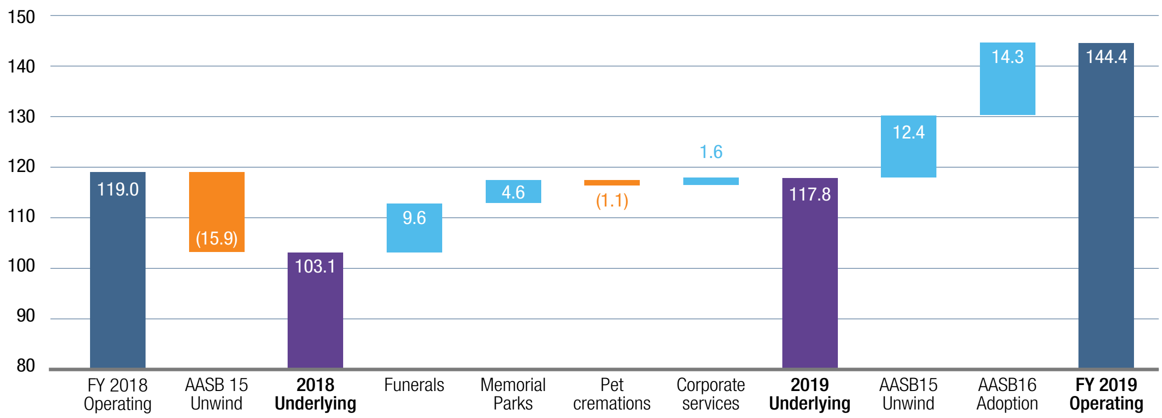
Key financial performance metrics 2019	2019 $'000	2018 $'000	Movement %
Operating sales revenue	**494,112**	477,337	3.5
Operating EBITDA [a]	**144,433**	118,998	21.4
Operating EBIT [a]	**105,439**	89,366	18.0
Operating earnings after income tax [a]	**59,202**	49,496	19.6
Net profit after income tax attributable to equity holders	63,752	41,224	54.6
Underlying sales revenue [b]	**477,779**	455,773	4.8
Underlying EBITDA [b]	**117,776**	103,128	14.2
Underlying EBIT [b]	**90,188**	73,496	22.7

a *Operating EBITDA and operating EBIT (being earnings before interest and tax) exclude financial results of non-operating activities (including net gain/loss on prepaid contracts).*

b *Underlying sales revenue and underlying EBITDA (being, earnings before interest, tax, depreciation and amortisation) exclude financial results of non-operating activities (including net gain/loss on prepaid contracts) and recent accounting standards changes (AASB 15 Revenue from Contracts with Customers and AASB 16 Leases).*

	2019 cents	2018 cents	Movement %
Basic earnings per share (EPS)	55.8	37.8	47.6
Operating EPS	51.7	45.2	14.4
Final dividend	23.5	19.5	20.5
Total dividend for the financial year	41.0	37.0	10.8
Dividend payout ratio%	79.3%	82.0%	(2.7ppts)

Composition of operating and underlying EBITDA movements by segment ($m)



Broad perspective on InvoCare growth potential

The following section provides an overview of the basic dynamics of the funeral and memorial service markets in which we operate, including the key drivers of demand, before outlining the business strategies aimed to maximise InvoCare's market share and sales growth in our core markets.

Also included is a summary of the need for the Protect & Grow strategy, and an explanation as to why this strategy is fundamental to providing a solid platform from which to deliver future growth.

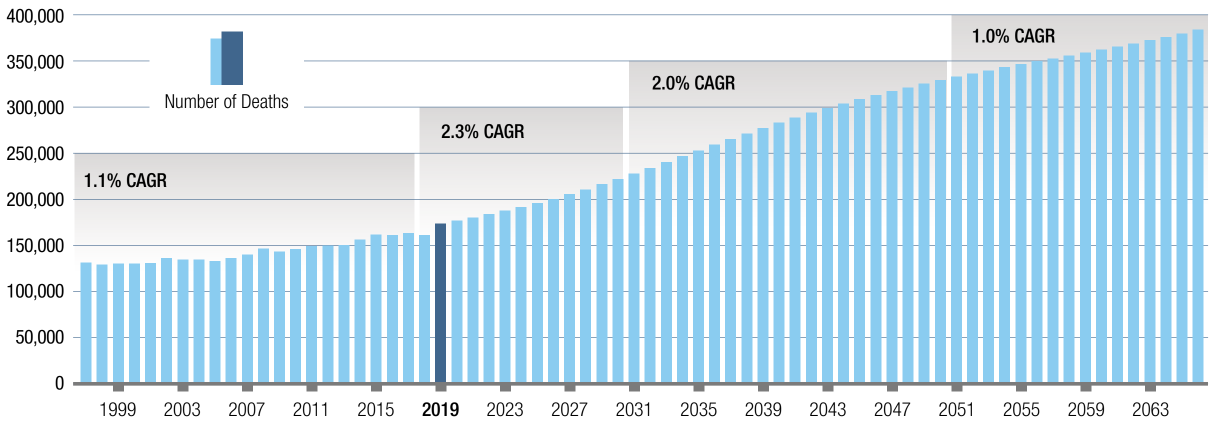
Finally, we will review the 2019 performance of our three key lines of business – funerals, memorial parks and prepaid funerals.

Demographic growth in underlying demand

The populations in our core geographical markets of Australia, New Zealand and Singapore are growing and ageing, with the first wave of the so-called baby boomer generation now impacting on anticipated death volumes. This positive demand profile is forecast to continue for at least two more decades.

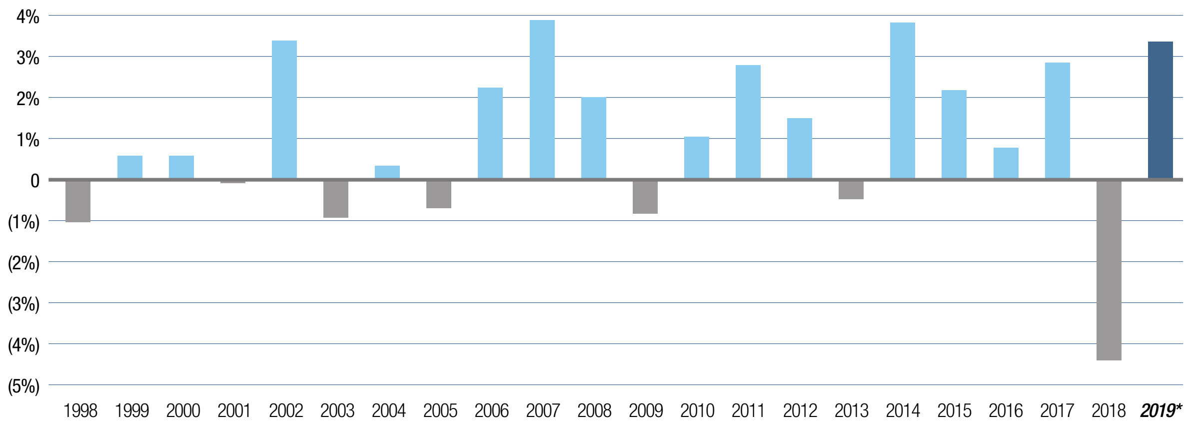
The challenge for funeral and memorial service providers is to recognise that the demands of client families is changing considerably. There is a strong movement away from religious services designed to mourn the death, towards a more contemporary celebration of the life lived. InvoCare is leading the market in understanding this change and investing considerable capital to meet these changing needs. While long-term volume growth is inevitable, the timing of this growth is unpredictable from year to year. The impact is magnified by the fact that marginal returns are much higher when demand is above average, and much lower when below, which serves to amplify the financial impacts of year to year demand fluctuations. InvoCare operates in a market that has some degree of short-term fluctuations but strong and predictable longer-term demand. This point is illustrated in the charts below.

Projected number of deaths in Australia



Source: ABS 3222.0 Population Projections 2017, Australia, Series B

Annual variations in the occurrence of deaths in Australia



*Source: ABS 3202.0 Deaths Australia (Date occurrence) * 2019= IVC Internal estimate*

DIRECTORS' REPORT – OPERATING AND FINANCIAL REVIEW

Ways to grow earnings and sustain margins

InvoCare seeks to deliver future growth by focusing on adapting our offering to meet the needs of client families. This requires us to be innovative in the way we deliver our services into the future.

Specific actions to deliver this are:

- Extending our geographical footprint
- Raising brand awareness and offering more relevant products to win business away from competitors
- Increasing the scope and value of services provided and focusing on providing client families with ever more value for money
- Increasing the share of total spend retained "in-house", which would otherwise flow to external service providers
- Pre-selling services to increase fund management income, at the same time as securing future demand
- Continually pursuing operating efficiencies to increase margins
- Implement digital service provisions to improve client families' experience

Trends in demand and value drivers

Family directed services

Historically, funeral and memorial services have reflected dominant cultural norms, typically with strong religious overtones set in church-like environments. People have expected, and have been expected by our industry, to follow these norms without significant input.

However, as Australia has experienced greater levels of ethnic diversity and decreasing levels of religiosity, it is clear that people's needs and expectations have changed and continue to evolve. While some continue to seek the traditional, religiously orientated funeral and/or memorial experiences, an increasing number of client families are looking for experiences that individualistically celebrate the life of a loved one or, in the case of funeral pre-sales, their own life.

The desire for more control and transparency has shifted expectations away from the delivery of a standardised funeral experience, towards the desire for supportive facilitation to create and host more customised experience that is both culturally and personally appropriate.

With this greater desire for control has come a greater diversity in expectations about the scope of services appropriate for a funeral or memorial experience. These range from very simple arrangements for a cremation, up to very substantial group celebrations involving catering, audio-visual displays and event coordination.

Potential to increase sales lies in the ability to better meet client family needs by providing new and additional services that they value. Many client families aspire to mark the passing of a life in an emotionally fulfilling and socially respectful way. This is driving a demand for bespoke services that enable personally distinctive experiences.

Memorialisation is also an area where the quality and aesthetic values of memorial experiences are valued by those who desire to be remembered or to remember their loved ones in an emotionally uplifting and respectful way. The ability to achieve a price premium reflects the desire to experience a high-quality memorial environment and associated infrastructure.

The challenge for funeral and memorial service providers is to evolve our offerings and service capabilities to maximise the perceived value of our services at all levels of expectation, and so realise consistently higher levels of satisfaction by meeting and, ideally, exceeding customer expectations for social approval and emotional fulfilment.

Growth of national brands in metro markets

Brand reputation is a powerful driver in the funeral market, with local (often personality driven) brand recognition traditionally key to referrals and awareness. However, in increasingly mobile and rapidly growing metropolitan populations, national brands are becoming more important as recognised sources of trusted value. This is creating an increasing disparity between the patterns of brand preference between metropolitan and rural locations, where local, personality-based relationships remain dominant.

Sea and tree changers shift to regional areas

Another trend differentiating metro and regional locations is being driven by baby-boomers' enthusiasm for sea and tree change in their retirement. This has resulted in a reduction in the metro death rates as their populations skew younger and a commensurate rise in the death rates in areas to which metropolitan retirees typically migrate.

Decreasing supply of state-owned memorial sites

A final trend in the memorial space has been the decreasing availability of burial or memorial sites in metropolitan areas currently supplied by state governments. These authorities are looking to private institutions to meet new demand by developing appropriate sites and facilities in outer urban fringes where the existing metro area supply is unable to meet demand.

The following section explains how InvoCare has approached these opportunities since 2003, and how we plan to realise them in the coming decade.

InvoCare business strategy

InvoCare was launched in 2003 and was the first ASX listed provider of funeral and memorial services enabling investors to benefit from the demographically driven growth in demand for funeral and memorial services.

The Group is structured around three lines of business with each focusing on a specific area of consumer need:

Funerals

The largest line of business caters to the need for funerals to be arranged, typically by family members, following the death of a loved one. Performance in this sector is largely driven by the capacity to facilitate and host events that celebrate a person's life in a way that meets the needs and expectations of their family.

Memorial Parks

This line of business caters to the desire for the burial or cremation and storage of a person's remains in a way that demonstrates respect for their life, in an attractive environment where they can be remembered fondly by loved ones. Performance in this area is dependent on the providers' ability to invest in attractive and contemporary new facilities to enable positive memorialisation.

Prepaid Funerals

An increasing number of people choose to pay in advance for their own funeral, which generates a pool of funds under management from which future service payments are drawn to deliver pre-agreed arrangements. These funds are held in trust by an independent third party regulated by APRA. Demand for this product has historically been driven by a desire to minimise financial and organisational burden for family members, but research indicates that it is increasingly motivated by the desire to dictate the type of funeral event that reflects one's own personal preferences and aspirations to be remembered.

InvoCare advantages

As a corporate operator, the key advantages over smaller family-owned chains and single site operators include:

- Higher levels of governance and superior management systems allows us to meet increasing statutory requirements and provide a consistent, high level of service to our client families
- Access to capital allows for us to deliver high quality facilities, staffing and training that provide world class customer service
- The willingness to invest in research provides us with significant data which then allows us to remain relevant with our client families
- Ability to grow through acquisitions and in-fills in existing markets, moving into new regional markets, and the expansion into adjacent markets (pet cremations)
- The ability to leverage our operational scale and national brands across relevant markets whilst maintaining our connection to the local communities that we serve
- Capital capability and corporate desire to provide facilities, training and tools for a safe and decent working environment
- Breadth of business and focus on professional development provides career paths for our staff
- Provide client families peace of mind with regard to the management of their prepaid funerals

InvoCare's evolving growth strategy

Over the first decade of InvoCare's operations, earnings growth was driven primarily by acquisition of established businesses in major metropolitan areas across our three core geographical markets. While maintaining many well-established local funeral brands, the Group also invested in building three national funeral brands in Australia, each targeted at different market segments.

Lifting service levels was another key growth strategy during the period, while cost control was maintained in part by keeping expenditure to a minimum.

Australian (National) brand target market segments

WHITE LADY FUNERALS *a woman's understanding*	White Lady Funerals is a committed and professional team of female funeral directors who have been offering a unique and distinctive quality of funeral service since 1987. The brand is renowned for providing superior quality funeral and memorial services to families of all cultural and religious and non-religious backgrounds.
Simplicity Funerals Simply Affordable.	Simplicity Funerals is a brand targeting the many Australians who want a dignified, practical, affordable funeral, offering simple packages that suit different needs, backed by a unique price guarantee. Our service guarantee assures client families that they'll get what they expect at a price they can afford, while their loved one receives the care and professionalism they deserve.
Value Cremations	Value Cremations offers an entry level cremation service, providing a dignified and quality service at a reasonable price. It caters to people for whom the cost of a funeral service may be an unexpected burden, or who may not feel that a traditional or elaborate funeral service is right for them.

DIRECTORS' REPORT – OPERATING AND FINANCIAL REVIEW

Reinvestment in existing assets, people and culture – 2015-2020

In 2015 the InvoCare Board recognised that acquisitions alone could not continue to drive EPS growth at the same level into the future. Regulatory limits on further acquisitions in Australian metropolitan markets imposed by the ACCC and the growing demand for personalised funeral celebrations in modern, non-religious surroundings led to a shift in focus to updating existing facilities, products and service capabilities to meet contemporary expectations.

During 2016 and 2017, comprehensive plans were developed for a major transformation of the Group's physical network to ensure that the Group's facilities and product offerings were appropriate to drive organic growth into the future. The rollout of this Protect & Grow strategy was started in 2H2017, and focussed on reversing market share decline, increasing revenue by providing increased product offering to meet the changing needs of client families and creating opportunities to drive operational efficiencies. The rollout of this strategy continued through 2018 and 2019 and will continue into 2020 and beyond.

Network and Brand Optimisation

A core focus of the Protect & Grow strategy has been the Network and Brand Optimisation (NBO) program which is transforming InvoCare's traditional funeral facilities into facilities that are more contemporary and better able to deliver additional service levels that are in-tune with client families' needs and preferences. At the end of 2019 the NBO program has delivered the following:

Number of NBO sites completed and investment

	Year completed			
Type of renovation	**2017** Number	**2018** Number	**2019** Number	**Total** Number
Enhance	0	7	**2**	**9**
Growth	4	16	**4**	**24**
Refresh	26	32	**15**	**73**
TOTAL	30	55	**21**	**106**
Total investment ($m) *	29	43	**34**	**106**

* *The total investment figure of $114m reported during the half year results reflected the investment budget for Phase 1 rather than the actual spend as at June 2019.*

Description of NBO renovation types

Type of renovation	Description
Enhance	Substantial rebuilding of sites to create state-of-the-art funeral hosting centres
Growth	New store fronts to complement larger funeral hosting facilities as part of a local site network
Refresh	New furniture, paint, carpets and other cosmetic changes to contemporise decor and lighting

Outcomes of NBO to date

The performance of completed renovated funeral locations compared to unrenovated locations has seen positive EBITDA growth of 8.5%. This is in part because the performance of unrenovated sites has declined at a greater than anticipated rate.

The drag associated with the reduction of cases while closing sites for refurbishment has impacted InvoCare's ability to maintain historical rates of EPS growth during the Protect & Grow investment period. This evidence indicates that the long-term uplift in market share and case averages should be in line with expectations.

Results to date have strengthened the Board's commitment to continue to invest in the NBO program in 2020, with a further circa 74 sites planned for renovation. After considering the need for a strong balance sheet, the ability for the business to digest the level of change and the impact on EPS growth due to temporary closures, the Board has decided to slow down the rollout of the implementation of the more capital-intensive elements of the strategy. This includes selected enhance locations and operational centres.

The charts on the following page provide further insight into the relative performance of non-NBO and NBO sites in Australia, where the numbers of each now provide a basis for comparison over one year (76 NBO sites) and two years (30 NBO sites) after renovation.

Volume trends in NBO vs non-NBO sites

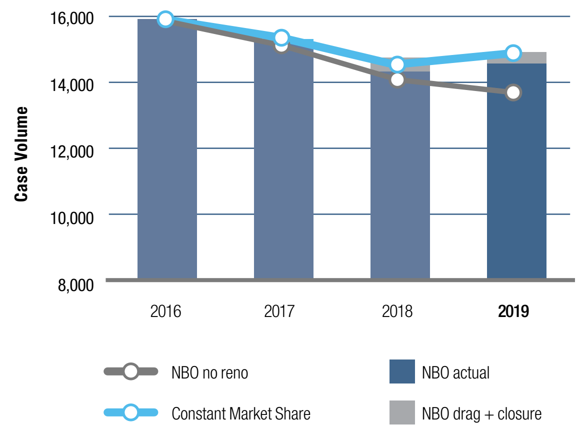
Chart A shows the actual performance of all locations that have been renovated between 2017-2019 (with 2016 being the base year).

The blue line shows what would have happened to case volume if these sites had maintained their 2016 market share. The dark grey line indicates what would have happened at these locations if the renovation work was not undertaken (based on actual performance of non-renovated locations). The light grey bar illustrates the loss of volume due to NBO work. This is referred to as the NBO drag.

The chart shows that the renovation strategy has delivered on its first objective, with market volume share remaining in line with historical levels in NBO sites, as shown by the blue line 'NBO constant market share'. By contrast, case volumes at non-NBO sites have declined by 13.8% in 2019 compared to the numbers that would have been delivered if market share had been maintained.

This non-NBO market share reduction reflects the underlying decline in competitive appeal of unrenovated sites, the lack of local leaders and the short-term impost associated with the rollout of the new ERP system. This rate of decline has been used as the opportunity-cost benchmark against which to assess the performance of our renovated sites, as shown in the grey line series 'NBO no reno'.

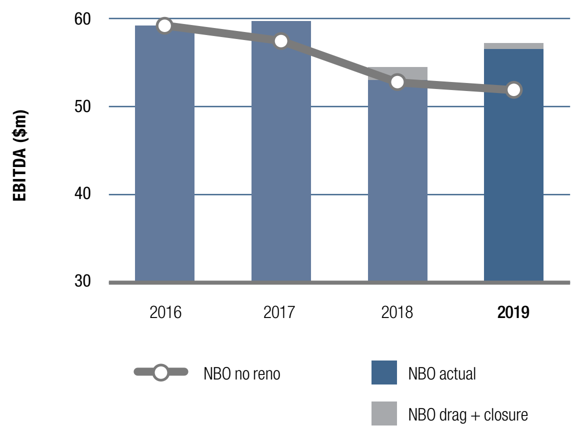
Chart A – Australian case volumes, NBO locations completed 2016-2019



EBITDA trends in NBO vs non-NBO sites

Chart B shows that EBITDA has grown by 6.9% in NBO sites from 2018 to 2019, which represents an underlying 3.7% growth once allowance is made for EBITDA losses associated with temporary closures of sites renovated in 2018. This primarily reflects the strong underlying growth in case averages, with EBITDA per case increasing by 4.5% from 2018 to 2019 in NBO sites, driven by the provision of additional services that client families value.

Chart B – EBITDA, Australian NBO locations completed 2016-2019



Completed and planned NBO renovations

The table below summarises the level of investment associated with the NBO program to date and identifies the number of sites planned for renovation in 2020.

Number and cost of NBO completed and number plan

	Completed to 2019		Planned in 2020
Type of renovation	**Sites**	**$ million**	**Sites**
Enhance	9	47 [a]	9
Growth	24	9	6
Refresh	73	29	59
Other [b]	-	21	-
Total	**106**	**106**	**74**

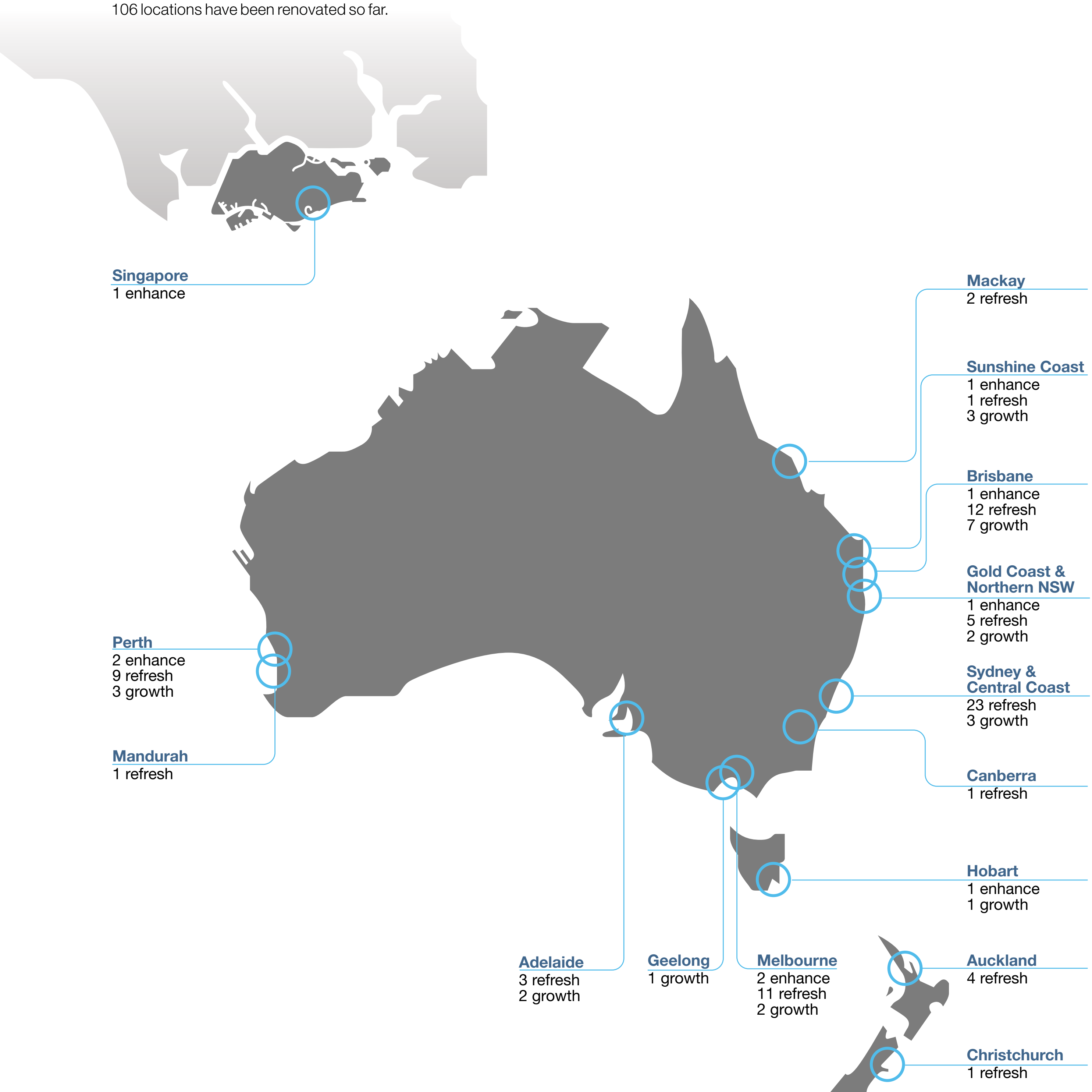
a *Includes acquisition costs of $8.3m for Singapore building*

b *Includes project management and internal labour costs*

The overall impact of NBO has been positive at a volume and EBITDA level, however the drag and ramp up associated with renovations is masking the full benefit. The Board is committed to continuing to renovate our locations throughout 2020 as this is seen as an essential foundation for future growth.

Geographical location of NBO completed locations to date

106 locations have been renovated so far.



Not to scale

People & Culture

The local leadership program (Aspire)

Effective local leadership is central to our growth due to the importance played in building relationships and community connections. A key aspect of our Protect & Grow strategy has been to invest in the development of local leadership capabilities throughout the Group network.

In 2018 we built the InvoCare leadership capability framework to clarify the essential leadership capabilities and clearly articulate what “good” looks like, which was launched at the March 2019 Leadership Forum. We have since focussed on rolling out our Aspire Leadership Program, aiming to achieve capability uplift in targeted leaders, to continue to feed a talent pipeline, and to provide a demonstrated career path for our high potential employees.

The Aspire program targets Funeral Managers and similar leaders from Memorial Parks and Corporate functions. The program incorporates online feedback from team members, face-to-face learning, virtual modules, self-paced and e-learning tasks. Another key component of Aspire is the completion of business projects focussed on InvoCare business issues and supported by an executive sponsor. This means those taking part get to apply what they have learned to real situations.

Post pilot program completion in 2019, the Aspire Leadership program moves into business as usual in 2020 and continued investment will be maintained to ensure the program runs annually.

Management Essential Suite

Another learning initiative, planned in 2019 for launch in 2020, has been to create a set of modular online learning solutions built around the key leadership capabilities for our frontline managers. This Management Essentials Suite is designed to meet the needs of a large number of geographically dispersed frontline people managers and aims to uplift their capability by developing their skills to lead their people and deliver against operational requirements.

One InvoCare – Our Culture

Working with client families to facilitate their specific needs and expectations is as much a cultural focus as it is operational.

InvoCare’s group-wide cultural transformation initiative began in 2018 with detailed plans for evolving our culture, based on inputs from a Culture Planning Team of people drawn from across the business.

This led to the establishment of the One InvoCare culture program in 2019, centred around our core values of:

- Collaboration
- Accountability
- Responsibility
- Excellence

This ongoing effort is already reflected in updated client family service training, as well as the new focus for our One InvoCare Awards which publicly recognise excellence by our staff in these key behavioural areas. Work is now underway to develop and implement a robust culture diagnostic tool to measure and track the Group’s culture over time, most importantly the degree in which our key culture behaviours are demonstrated across the business. The pilot program for this cultural measurement is planned for 2020.

Diversity

As part of our commitment to continuous improvement, a key area of focus for cultural evolution has been to ensure greater cultural diversity, particularly in terms of the gender diversity of our management team. In 2019 we achieved 50:50 gender balance at the senior management level, with progress being made at the local management level.

As our operational focus shifts towards offering a more ethnically diverse customer experience, we anticipate that increasing ethnic diversity in our frontline and management staff will become a key area of focus for us in 2020 and beyond.

Outcomes of People & Culture programs to date

A number of indicators suggest that the investment in leadership and management training alongside the Group’s cultural and community engagement initiatives are all having a positive impact on both employee and client family experiences.

Feedback from our client families shows we have continued to improve with our Net Promoter Score for 2019 remaining strong at a market leading position of +78.

Feedback from staff remains positive, with our 2019 Employee Engagement survey receiving a 75% participation rate and delivering an engage score of 80%, despite the disruption caused by implementation of our substantial change program. 90% of our employees agree that InvoCare excels at supporting client families, which reflects the highest levels of commitment to our core values.

DIRECTORS' REPORT – OPERATING AND FINANCIAL REVIEW

Operational efficiencies

In parallel with investment in our properties and people, InvoCare has embarked on a program of work to transform the corporate governance and management systems required to run a contemporary ASX-listed corporate enterprise.

The most significant initiative in this area has been the development and rollout of a customised Enterprise Resource Platform (ERP) under a program known as Compass. Replacing the existing, unsupported ERP system addressed one of the most significant risks on the risk register.

The new ERP has been rolled out to our funeral businesses starting late 2018 and has been implemented to 99% of our funeral locations as well as to the corporate functions including Human Resources, Payroll and Finance. The new system will in time underpin efficiencies as well as improvements to customer experience. It should be noted that as with most new business system implementations of this scale, the project has not been without its challenges. Perhaps the biggest challenge has been to manage the impact that the implementation has had on our staff and suppliers who have had to learn new work practices and procedures. Whilst difficult to assess the cost of these factors it should be recognised that the implementation had a negative impact on the business in 2019.

A positive feature of the new ERP system is that it implements CRM to avoid repetitious paperwork for the arranger and ensure that we are able to quickly and efficiently amend the arrangement. This will reduce the amount of time that arrangers need to spend on administration and allow them to focus on providing higher levels of service to client families.

Another area of operational efficiency focus has been investment in shared service capability based in centrally located operational centres. A total of $8.7 million was invested in developing these centres in 2019.

Work is underway to assess the impact of existing operational centres with a view to optimising the model and proving up the business case before further rollouts. A further 14 centres have been identified for improvement post 2020.

Regional growth from 2018

While shifting the focus to better meeting client family expectations in existing sites, InvoCare also embarked on a targeted acquisition led expansion strategy into the key regional areas to which metropolitan retirees typically migrate (often referred to as a sea or tree changers).

This more geographically focussed acquisition strategy has been an important contributor to EBITDA growth in recent years.

Augmenting the acquisitions in these areas is the opportunity to leverage the national brands into areas where sea/tree changers make up a large portion of the community. This in-filling strategy using national brands is possible only due to the access to the shared services facilities in the traditional businesses that are being acquired.

The regional markets therefore continue to provide an excellent source of growth for InvoCare both in the short and medium term.

Adjacent markets from 2019

While remaining firmly focussed on our core, InvoCare has made cautious moves to assess and develop opportunities in adjacent markets that directly leverage existing core capabilities and corporate strengths.

Meeting the growing demand for pet cremations and memorialisation is one adjacent market opportunity currently being implemented.

Pillars of growth

InvoCare has developed a set of key metrics that reflect the dynamics of our core markets – particularly funerals – to provide a high-level snapshot of our performance in the context of annual demand fluctuations.

Key performance driver indices (pillars of growth)

- Number of deaths in markets in which we operate
- Market share
- Funeral case average
- Cost control
- Net Promoter Score (NPS)
- Number of locations renovated (P&G)

The chart below summarises the key financial and pillars of growth indices for 2019.

InvoCare pillars of growth 2019

Pillars of growth

DEATHS[1]	↑ 2.9%
MARKET SHARE[2]	↑ 20 bps
FUNERAL CASE AVERAGE	↑ 2.1%
OPERATING MARGIN	↑ 430 bps
NPS[3]	= +78
Protect & Grow	106 locations completed

1 Internal estimate 2 IVC Group 3 Australia & New Zealand

Underlying results for 2019

InvoCare considers underlying EBITDA and EBIT as key performance measures. Underlying EBITDA and EBIT relates to the adjusted earnings before interest, tax, depreciation and amortisation after excluding the following items:

- The financial impacts of the prepaid funeral business
- Other non-operating activities, including asset sales gain/loss, impairment loss and restructuring costs

For 2018 and 2019, the underlying results also excluded the recent Australian Accounting Standards changes (AASB 15 and AASB 16). InvoCare was impacted by AASB 15 more than many other companies. For AASB 16, due to the methodology of adoption elected by InvoCare, there was no comparative in 2018 financial data.

Underlying financial performance

	2019 $'000	2018 $'000	Movement %
Underlying sales revenue	**477,779**	455,773	4.8
Other revenue	**5,553**	2,861	94.1
Operational expenses	**(365,556)**	(355,506)	2.8
Underlying EBITDA	**117,776**	103,128	14.2
Underlying EBITDA margin (%)	***24.7%***	*22.6%*	*2.1ppts*
Depreciation and amortisation	**(25,567)**	(26,030)	(1.8)
Business acquisition costs	**(2,021)**	(3,602)	43.9
Underlying EBIT	**90,188**	73,496	22.7
Underlying EBIT margin (%)	***18.9%***	*16.1%*	*2.8ppts*
Finance costs	**(16,797)**	(16,192)	3.7
Interest income	**1,211**	1,354	(10.6)
Underlying earnings before income tax	**74,602**	58,658	27.2
Income tax expense on underlying earnings	**(20,705)**	(17,850)	(16.0)
Underlying earnings after income tax	**53,897**	40,808	32.1

Underlying EBITDA and EBIT by region and revenue type

		Underlying EBITDA			Underlying EBIT		
		2019 $'000	2018 $'000	Movement %	2019 $'000	2018 $'000	Movement %
By regions	Australia	**97,341**	86,724	12.2	**74,176**	61,896	19.8
	New Zealand	**10,555**	9,678	9.1	**7,301**	5,818	25.5
	Singapore	**9,880**	6,726	46.9	**8,711**	5,782	50.7
By revenue types	Funeral services	**96,015**	86,391	11.1	**79,350**	68,736	15.4
	Memorial Parks	**49,426**	44,852	10.2	**44,428**	38,280	16.1
	Pet cremations	**(1,319)**	(200)	n/a	**(1,586)**	(221)	n/a
	Corporate services	**(26,346)**	(27,915)	(5.6)	**(32,004)**	(33,299)	(3.9)
Total		**117,776**	103,128	14.2	**90,188**	73,496	22.7

DIRECTORS' REPORT – OPERATING AND FINANCIAL REVIEW

Underlying sales revenue

Strong growth in underlying results across all financial metrics with sales revenue growth of 4.8% across the Group with improved volume and case averages across most regions with:

- **Australia's** growth of 2.9% was achieved through solid Memorial Parks sales growth of 4.6% following the build of large memorial complexes together with the recent 2018-2019 funeral acquisitions. These contributed additional sales of $9m in 2019. The comparable renovated funeral locations improved whilst the unrenovated continued to decline
- **New Zealand's** growth of 12.9% delivered by the recent acquisitions whilst the comparable business' performance has continued to decline leading to the impairment of goodwill
- **Singapore's** growth of 26.5% followed the re-opening of the location post renovations in 2018
- **Other revenue** augmented by $2.3 million from one-off sale option fees on properties as part of the network optimisation program under the Protect & Grow strategy

Underlying sales revenue by region and revenue type

		2019 $'000	2018 $'000	Movement %
By regions	Australia	**400,923**	389,662	2.9
	New Zealand	**56,033**	49,652	12.9
	Singapore	**20,823**	16,459	26.5
By revenue types	Funeral services	**372,918**	356,261	4.7
	Memorial Parks	**104,045**	99,463	4.6
	Pet cremations	**816**	49	n/a
Total		**477,779**	455,773	4.8

Underlying operational expenses

Operational Expenses growth of 2.8% was contained by improved gross margin and lower general expenses partially offset by annualised expenses from 2018 acquisitions;

- **Cost of goods sold %** to underlying sales of 25.7% improved by 1ppt (2018: 26.7%) through continued procurement focus
- **Employee and facilities costs** increase was impacted by the annualised impact of the 2018 acquisitions and greenfield locations (new shop fronts)
- **Technology costs** increase in 2019 reflect the cloud-licencing costs (non-capitalisable) following the implementation of a new cross-company ERP system

Underlying operational expenses

	2019 $'000	2018 $'000	Movement %
Finished goods, consumables and funeral disbursements	**123,161**	121,495	(1.4)
Employee benefit expense	**160,928**	155,222	(3.7)
Advertising and public relations expenses	**12,331**	12,467	1.1
Occupancy and facilities expenses	**34,693**	31,258	(11.0)
Motor vehicle expenses	**8,411**	8,569	1.8
Technology	**11,283**	9,398	(20.1)
Other	**14,749**	17,097	13.7
Total underlying operational expenses	**365,556**	355,506	(2.8)
Percentage to underlying sales	**76.5%**	78.0%	(1.5ppts)

Other costs

- **Depreciation and amortisation** contained following a review of useful life on cremators, fixtures and fittings and motor vehicles
- **Finance costs** in line with prior period following capital raise in March 2019 and subsequent net debt reduction (refer to capital management section)
- **Tax expenses** benefitted from utilisation of capital losses

Group funerals performance 2019

Funerals delivered solid business growth in 2019, with underlying EBITDA up by 11.2%. The growth was driven by Regional Acquisitions, growth from completed NBO sites, cost management and strong case average growth.

Key funeral performance financials 2019

Underlying Performance	2019	2018	Var.	Movement %
Case volume	**46,171**	44,480	1,691	3.8
Sales ($m)	**372.9**	356.3	16.6	4.7
EBITDA ($m)	**96.0**	86.4	9.6	11.1
EBITDA margin	**25.7%**	24.2%		1.5 ppts
EBIT ($m)	**79.4**	68.7	10.7	15.4

Funerals

Growth associated with acquisition

Since the shift to Protect & Grow, the focus of acquisitions has been on regional areas where the demand for funeral and memorial services are forecast to increase due to the influx of sea and tree changers from metropolitan areas. In 2019, key acquisitions included:

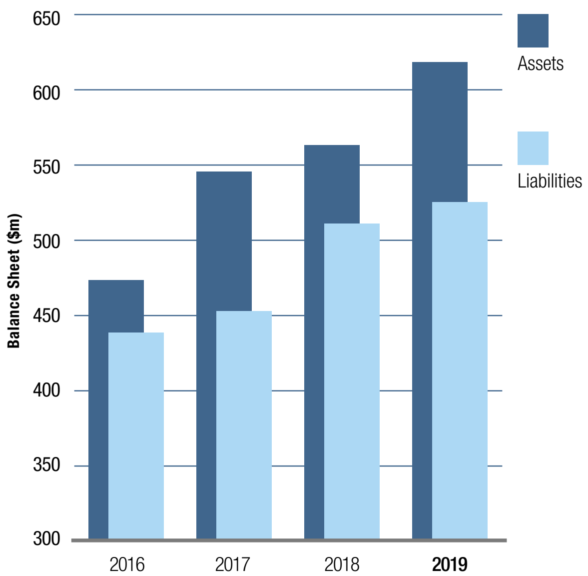
- Heritage Funerals (Toowoomba, QLD)
- Batemans Bay & Moruya District Funerals (Batemans Bay, Moruya and Narooma, South Coast NSW)

New acquisitions have been a source of funeral services earnings growth in 2019 (largely driven from acquisitions undertaken in 2018).

Prepaid Funerals

The funds under management for our prepaid funerals delivered a net 9.9% uplift in the value of funds under management, bringing them up to around 120% of the value of liabilities associated with prepaid funerals.

Year end funds under management - $ million



Memorial Parks performance 2019

Memorial Parks

Sales of memorial services increased by 4.6%, while underlying EBITDA was up by 10.2% and EBIT up by 16.1%, across Memorial Parks.

Growth was driven by ongoing focus and strategy for product development combined with strong cost control.

Summary of Memorial Parks performance

	2019 $m	2018 $m	Var. $m	Movement %
Sales	**104.0**	99.5	4.5	4.5
Underlying EBITDA	**49.4**	44.9	4.5	10.0
EBITDA margin	**47.5%**	45.1%		2.4 ppts
EBIT	**44.4**	38.3	6.1	16.1

Significant investment in product development has been made, with more than 2,200 new memorial products e.g. vaults, niches, crypts built across three sites:

- Pinegrove Crypt Complex
- Forest Lawn Crypt Complex
- Pinegrove Vietnamese & Catholic

With the impact of these new products coming online during 2019, the growth is forecast to continue into 2020.

We also invested significantly in the Allambe Memorial Park facility in 2019, extending its life by ~20 years.

During 2019, the acquisition of the Broulee Memorial Gardens (Broulee, South Coast NSW) expanded the Memorial Parks footprint into regional Australia.

Developments in pet cremations

2019 saw the first substantial phase of implementation of the strategy to move into the adjacent market of pet cremations. The aim was to assess this opportunity through a mix of acquisition and greenfield developments on existing memorial sites, before rolling out the strategy nationally once the business model is proven.

Our first acquisition, made in 2018, has performed strongly under corporate management largely due to the extended marketing support. 2019 saw the development of an additional greenfield crematorium site built on an existing NSW Memorial Park.

Review of financial position

Assets and liabilities

Assets and liabilities as at 31 December 2019

	2019 $'000	2018 $'000	Movement %
Total assets	**1,600,763**	1,356,319	18.0
Total liabilities	**1,303,784**	1,165,022	11.9
Net assets	**296,979**	191,297	55.2

The net assets of the Group as at 31 December 2019 were $296,979,000 compared to $191,297,000. The increase of $105,682,000 was mainly due to:

- Net increase in prepaid contract / funds under management and the prepaid contract liabilities of $40,463,000 due to strong returns from equities and some property revaluations
- Increase in property, plant and equipment of $23,167,000 mainly due to the refurbishments pursuant to the NBO program and to the properties acquired in the period of $6,828,000
- Increase in net liabilities of $18,900,000, being the recognition of $144,001,000 of right of use asset offset by $162,901,000 of lease liabilities due to the application of AASB 16 Leases
- Decrease in borrowings of $51,056,000 as InvoCare completed an Institutional Placement and a Share Purchase Plan in raising a total $85,787,000 of ordinary share capital, net of costs. Part of the capital raised was used to reduce borrowings
- Temporary increase of $7,234,000 in current trade receivables during the transition of the ERP system implementation and non-current trade receivable increase of $18,893,000 following the adoption of accounting change (AASB 15)
- Decrease in intangible assets of $15,865,000 as a result of goodwill and brand names arising from the three acquisitions in the period and goodwill reduced by $24,404,000 from the impairment testing on the New Zealand CGU

Recoverable amount testing for the period ended 31 December 2019 has identified the New Zealand CGU as being impaired. Taking a considered approach, an impairment loss of $24,404,000 has been recognised.

The impairment reflects the under performance of the New Zealand operations during the six months ended 31 December 2019, the competitive landscape and relative size of the New Zealand market and the updating of long-term modelling for the expected performance of those operations.

The two businesses acquired in 2018 have been integrated into the existing New Zealand operations, however their performance has not sufficiently compensated for the impact of a reduction in case volume and increased costs of the New Zealand operations as a whole.

Activities have commenced to reduce costs and improve the financial performance of the New Zealand operations however; these activities are in progress and any potential benefit to future performance is uncertain at this early stage.

Recognising an impairment loss on the goodwill of the New Zealand operations has no impact on cash.

All cemetery and crematoria parks were reassessed during the year ended 31 December 2019 and no change to the impairment provision was deemed necessary (2018: nil). The remediation of the residual land at Allambe Memorial Park was completed in January 2020, with sales of burial sites in the newly developed section due to occur in early 2020. The Group will reassess the recoverable amount of the park in June 2020.

Cash flows

The operating EBITDA conversion to cash ratio for 2019 was 82% (2018: 88%). Net operating cash flows have improved on PCP by $15,522,000 due to increased trading and the reclassification of lease related cash payments to financing cash outflows following the adoption of AASB 16 Leases ($14,733,000).

Summary of cash flows 2019

	2019 $'000	2018 $'000
Operating EBITDA	**144,433**	118,998
Statutory ungeared, tax free operating cash flows	**100,504**	90,296
Receipts from prepaid contracts performed	**40,842**	46,006
Receipts from prepaid contract sales	**(24,976)**	(34,639)
Other cash flows related to the prepaid contracts	**2,406**	2,559
Ungeared, tax free operating cash flows	**118,776**	104,222
Proportion of operating EBITDA converted to cash	**82%**	88%

The conversion ratio calculation and the line items as shown in the table above are all non-IFRS information, however, all financial data is based on the information disclosed in the audited financial statements and notes to the financial statements and follow the recognition requirements of Australian Accounting Standards.

Capital management

During 2019, InvoCare completed an Institutional Placement followed by a Share Purchase Plan, and new capital before costs of $65,000,000 and $22,712,000 were raised, respectively. Net proceeds from the capital raised will be applied to InvoCare's strategic growth objectives and in the short term for the reduction of its outstanding debts.

The Group has a total of $450,000,000 debt facilities to cover needs from all three regions (Australia, New Zealand and Singapore) with total drawn down of $359,600,000 as at 31 December 2019. The current debt facilities' drawing comprises A$250,500,000, SG$35,000,000 and NZ$75,000,000. The foreign currency drawings naturally hedge investments in Singapore and New Zealand markets.

Capital management as at 31 December 2019

	2019	2018	Movement	Covenant
Net debt ($'000)	**352,379**	393,500	(10.5%)	
Leverage ratio	**2.52x**	2.99x	(0.47x)	< 3.5x
Interest coverage ratio	**9.54x**	8.96x	0.58x	> 3.0x

The financial covenant ratios targets on debt facilities are:

- Leverage ratio (being net debt to operating EBITDA adjusted for acquisitions and restructuring costs) must be no greater than 3.5
- Interest cover ratio (being operating EBITDA adjusted for acquisitions and restructuring costs to net interest) must be greater than 3.0

The above ratios continued to be met as at 31 December 2019, being 2.52:1 and 9.54:1, respectively (2018: 2.99:1 and 8.96:1, respectively). Internally, the Group has adopted a conservative approach to capital management and targets a leverage ratio of 3.0x operating EBITDA.

In order to maintain certainty over cash flows, the Group also has policies limiting exposure to interest rate fluctuations. In accordance with InvoCare's policy, at 31 December 2019, 94% of Australia and New Zealand debt principal was fixed interest rates through using either floating to fixed interest rate swaps or fixed rates debt (2018: 75%). Due to the level of stability of Singaporean interest rates and its quantum, Singapore dollar debt is not covered by interest rate swaps.

With the headroom in debt facilities of $90,400,000, cash held of $19,560,000, the Group maintained an available funds of over $110,000,000.

As at 26 February 2020, the Board determined to declare a final dividend of 23.5 cents per share, fully franked. This brings the full year dividend to 41.0 cents per share, which equates to a payout ratio of 79.3% of operating earnings, in line with InvoCare's dividend guidelines to distribute no less than 75% of operating earnings in any full financial year.

Risks, Safety and Sustainability

InvoCare risk registry

InvoCare has in place an Enterprise Risk Management Framework. As part of the framework the Group maintains an extensive risk register. The most significant risk for annual financial performance is the number of deaths in our markets. Our approach to forecasting deaths and adjusting budgetary expectations has always been conservative, however significant uncertainty is inevitable, which can negatively impact actual versus expected performance, as it did in 2018 when actual deaths declined by 2.3%, ahead of our estimated 2.2% increase.

The rollout of the new ERP has significantly reduced our IT risks and helped to mitigate reputational risk to some extent. The key areas of identified risks are summarised below.

Risk	Description	Risk management mitigation
Number of deaths	○ Change in mortality rates ○ Improvement in health due to medical advances ○ Relocation of population to areas outside InvoCare business operating regions	○ Workforce flexibility ○ Geographic footprint ○ Service offerings ○ BDM data ○ Data Analytics Software
Loss of key brand reputation/customer relationships	○ Failure to maintain brand reputation in market ○ Failure to react to changes in customers' needs/trends ○ Products and/or services do not keep pace with developments in market needs or technological advancements ○ Customers/media complaints	○ Continued investment in customer research to sustain market leading position ○ Customer feedback surveys ○ Net promoter score reporting or tracking ○ Close monitoring of market developments and direction of strategies ○ NBO renovations and transformations of locations and facilities to exceed customer expectations
Reliance on single point of failure in supply chain	○ Unable to supply products to deliver services for families	○ Dedicated internal resources to monitor supply agreement contracts ○ Commercial tendering processes to identify alternative suppliers ○ Inventory management
Competitive risk	○ Risk from existing and new market entrants ○ Competitors may offer / develop superior products/services	○ Focus on client satisfaction via continuous improvements in delivery of customer required products and services ○ Leveraging existing brands in the local regions with acquisitions strategies to expand market share locally ○ Delivery of superior products/services to exceed customer expectations and against competitors' products/services offerings in the same operating regions ○ Focus on local community engagement and relationship to maintain or improve competitive advantage against other operators
Regulatory risk	○ OHS risks ○ Environmental regulations risks ○ Perpetual care ○ Australian Competition and Customer Act 2010 (Consumer Act) and other related legislation	○ HSE Management Plan ○ Behavioural base safety programs ○ Consumer Act training for employees

Risk	Description	Risk management mitigation
People risk	○ Loss of key executives ○ Loss of key individuals in operating businesses with consequential material business interruption	○ Appropriate incentives and career development opportunities for key executives and senior management ○ Identification and management of high potential employees
Investment risk – acquisitions	○ Insufficient funding to capitalise on opportunities ○ Deficiencies in due diligence by InvoCare ○ Potentially unknown or contingent liabilities ○ Reliance on previous owners performing satisfactorily ○ No guarantee of continued successful performance of acquired businesses	○ Investment Committee provides strategic guidelines and recommendation to the Board on acquisitions decisions ○ Treasury function monitors the application of the Board's guidelines and provides recommendation to senior management and Board for the final acquisition decisions
Investment risk – prepaid funeral contracts	○ Potential escalation in service/ product costs ○ Volatility of investment returns on prepaid funds fluctuation	○ Maintain Board representation in the Over Fifty Guardian Friendly Society, the main investment portfolio for over 85% of the prepaid funeral contracts ○ Ensure the prepaid funeral contracts are invested in diversified asset classes to maximise returns without exceeding risk levels as specified in accordance with the investment policy and guidelines
Information technology (IT) risk – cyber risk, privacy and data sovereignty	○ Risk of data loss/fraud, system breakdown ○ Implementation risk for the ERP system into the business ○ Risk of targeted cyber attack against Company assets ○ Unauthorised access to or loss of customer data including personally identifiable data	○ Dedicated internal resources to monitor and address cyber and information risks as and when they arise ○ Measures to detect and prevent unauthorised access to Company IT assets ○ Code of Conduct is set up and relevant employee training is conducted ○ Disaster Recovery Plan is set up and identified processes/alternative activities to assist mitigation disruption risks at time of needs ○ Penetration Testing
A crisis occurs threatening the organisation, our stakeholders or the general public	○ A pandemic spreads across the business or community ○ Natural disaster occurs such as fire, floods impacting significant operations ○ IT system breakdown	○ Infectious Disease procedure in place ○ Emergency Management Plans, developed locally with clear escalation guidelines to Corporate Emergency Management Plan (EMP) ○ Disaster Recovery Plan (DRP) in place to manage IT risks ○ InvoCare Pandemic and Epidemic Diseases Plan in place ○ EMP, DRP and Pandemic / Epidemic Diseases Plan link to Business Continuity Plan (BCP) with identified processes, roles and responsibilities to mitigate disruption to the business and community

DIRECTORS' REPORT – OPERATING AND FINANCIAL REVIEW

Workplace Health and Safety Initiatives

The funeral, cremation and memorial services industry has always been impacted by safety risks and mitigating these is a top priority for InvoCare.

Our strategies to improve safety have ranged from investment in more appropriate lifting equipment, to a greater focus on reward and recognition of those who achieve excellent safety performance. We have signalled the importance of safety through the appointment of a market recognised Head of Safety; whose primary focus is to drive further improvement in this critical area. A sustainable long-term safety plan is being developed as part of our wider focus on Sustainability, which will be discussed in greater detail in the Sustainability Report released in March 2020. We anticipate that this safety plan will be implemented in the first half of 2020.

Specific initiatives developed or implemented in 2018 and 2019 include:

- Development of detailed safety plans for all roles in all locations
- Introduction of the Safe Zone across all Business Units to proactively flag workplace risks
- Placement of Visual Safety Boards in all locations
- Inclusion of Safety Performance within all managers' STIPs
- Working with external parties (e.g. AFDA) to ensure best-practice safety measures are in place
- Putting proactive safety measure in place for potential risks, such as COVID-19

These efforts have resulted in a strong improvement against 2018 results. Overall, Lost Time Injury Frequency Rate (LTIFR) finished the year at 14.1, under the target of 14.8, which represents a 19% reduction on the 2018 result. In response to the COVID-19 outbreak we have reviewed our policies and procedures to ensure we meet or exceed requirements needed to protect our people. We continue to work with relevant health authorities.

Sustainability

In 2019, we progressed a comprehensive Environmental and Social Governance (ESG) strategy and implementing appropriate reporting protocols.

We published a separate InvoCare Sustainability Report in March 2020.

The underlying objective is to integrate both environmental and social governance into mainstream management and reporting practices as rapidly as possible. To support our ESG strategy, an ESG working group was established in July 2019 comprising members of the Board and senior executives.

Working with the UN's Sustainable Development Goals, as well as a range of other reporting protocols, InvoCare has identified the following initial key areas of focus:

- SDG 5 – Gender Equality
- SDG 8 – Decent work and economic growth
- SDG 10 – Reduced inequality
- SDG 12 – Responsible production and consumption

Many initiatives already underway have been discussed in the section of People & Culture. We anticipate that further initiatives will be introduced to address our responsible production and consumption targets, particularly in relation to reviewing our supply chains and environmental areas of responsibility.

2020 outlook

It is difficult to provide full year earnings guidance with any degree of certainty, given the importance that the Winter trading period has on the results for InvoCare.

Summarised below are the key assumptions for 2020:

- A continuation of the revision to trend in the number of deaths across our three markets
- Case average growth of circa 2%
- Disciplined cost control across existing business
- Continued positive contribution from acquisitions
- Estimated NBO drag of circa $4 million EBITDA

Forecast impact on Operating EBITDA of AASB 15 unwind is expected be circa $14 million in 2020 assuming current customer repayment schedules. The current estimates for 2021 and 2022 are circa $12.5 million and $11 million respectively.

A trading update will be provided for Q1 at the May AGM.

Beyond 2020

The focus beyond 2020 will then be on investing in "Growth" activities to provide sustainable growth over the medium to longer term.

Growth activities to be considered include:

- Enhance traditional locations
- Establish new locations
- Acquisitions
- Continue to rollout pet cremation business
- Explore multicultural funerals, green funerals and innovations in funerals and memorialisation

In addition, Protect & Grow provides the base for more innovative growth strategies. A key part of preparing for growth beyond Protect & Grow has been the recent renewal of the Board of Directors. These changes have ensured that we have the appropriate skill set to identify these new areas of growth.

InvoCare will be conducting research into these new areas of growth to better understand how we can meet the needs of an increasing socially diverse and digital savvy population who have different religious and cultural needs.

Mindful of the need to attract executives with the skill sets to deliver these innovative solutions, attention will be given to leadership and succession development.

Reconciliation of financial information

The table below presents a reconciliation of statutory results as disclosed in the consolidated statement of comprehensive income, operating results in Note 1: Operating segments and underlying results after removing AASB adjustments.

		Statutory results [a] $'000	Reclass-ification [b] $'000	Operating results [c] $'000	AASB adjustments [d] $'000	Underlying results [e] $'000
2019	Sales revenue	**494,584**	**(472)**	**494,112**	**(16,333)**	**477,779**
	Other revenue	**5,764**	**(211)**	**5,553**	**-**	**5,553**
	Operating expenses	**(363,258)**	**8,026**	**(355,232)**	**(10,324)**	**(365,556)**
	EBITDA	**137,090**	**7,343**	**144,433**	**(26,657)**	**117,776**
	EBITDA margin (%)	***27.7%***		***29.2%***		***24.7%***
	Depreciation and amortisation	**(36,986)**	**13**	**(36,973)**	**11,406**	**(25,567)**
	Business acquisition costs	**(2,021)**	**-**	**(2,021)**	**-**	**(2,021)**
	EBIT	**98,083**	**7,356**	**105,439**	**(15,251)**	**90,188**
	EBITDA margin (%)	***19.8%***		***21.3%***		***18.9%***
	Finance costs	**(25,671)**	**1,247**	**(24,424)**	**7,627**	**(16,797)**
	Interest income	**1,211**	**-**	**1,211**	**-**	**1,211**
	Earnings before income tax	**73,623**	**8,603**	**82,226**	**(7,624)**	**74,602**
	Income tax on operating earnings	**(20,873)**	**(2,151)**	**(23,024)**	**2,319**	**(20,705)**
	Earnings after income tax	**52,750**	**6,452**	**59,202**	**(5,305)**	**53,897**
	Non-operating items:					
	Net gain/(loss) on prepaid contracts before income tax	**45,550**	**(8,603)**	**36,947**		
	Asset sales gain/(loss) before income tax	**2,404**	**-**	**2,404**		
	Impairment loss on intangibles	**(24,404)**	**-**	**(24,404)**		
	Income tax on non-operating results	**(12,412)**	**2,151**	**(10,261)**		
	Non-controlling interest	**(136)**	**-**	**(136)**		
	Net profit after income tax attributable to ordinary equity holders of InvoCare Limited	**63,752**	**-**	**63,752**		
2018	Sales revenue	477,703	(366)	477,337	(21,564)	455,773
	Other revenue	3,094	(233)	2,861	-	2,861
	Operating expenses	(369,067)	7,867	(361,200)	5,694	(355,506)
	EBITDA	111,730	7,268	118,998	(15,870)	103,128
	EBITDA margin (%)	*23.4%*		*24.9%*		*22.6%*
	Depreciation and amortisation	(26,039)	9	(26,030)	-	(26,030)
	Business acquisition costs	(3,602)	-	(3,602)	-	(3,602)
	EBIT	82,089	7,277	89,366	(15,870)	73,496
	EBITDA margin (%)	*17.2%*		*18.7%*		*16.1%*
	Finance costs	(21,036)	1,386	(19,650)	3,458	(16,192)
	Interest income	1,354	-	1,354	-	1,354
	Earnings before income tax	62,407	8,663	71,070	(12,412)	58,658
	Income tax on operating earnings	(19,593)	(1,981)	(21,574)	3,724	(17,850)
	Earnings after income tax	42,814	6,682	49,496	(8,688)	40,808
	Non-operating items:					
	Net gain/(loss) on prepaid contracts before income tax	(4,992)	(8,663)	(13,655)		
	Asset sales gain/(loss) before income tax	329	-	329		
	Income tax on non-operating results	3,209	1,981	5,190		
	Non-controlling interest	(136)	-	(136)		
	Net profit after income tax attributable to ordinary equity holders of InvoCare Limited	41,224	-	41,224		

a *Statutory results as presented in the consolidated statement of comprehensive income.* ***b*** *Reclassification of prepaid funeral business as non-operating.* ***c*** *Operating results, including the impacts of AASB 15 and AASB 16.* ***d*** *For 2019, the removal of the impacts of AASB 15 and AASB 16 from Operating results to present Underlying results. AASB 16 was adopted from 1 January 2019, with no changes to comparatives. For the financial year ended 31 December 2018 (2018), the removal of the impact of AASB 15 only.* ***e*** *Underlying results excluding the financial impacts of AASB 15 and AASB 16 (2019 only) accounting standards.*

DIRECTORS' REPORT – OPERATING AND FINANCIAL REVIEW

InvoCare considers underlying EBITDA and EBIT as the key performance measures. It represents adjusted earnings after excluding the following items:

- The financial impacts of the prepaid funeral business
- Other non-operating activities, including asset sales gain/loss, impairment loss and restructuring costs

Net gain/loss on prepaid contracts, as presented separately in the table above, includes all amounts related to the administration and financial impacts of the prepaid funeral business. This has resulted in normalisation adjustments to sales, other revenue and operating expenses to reflect the exclusion of the financial impact of the prepaid funeral business. The directors consider that the presentation of all activities related to funds under management as non-operating provides a clearer and better reflection of InvoCare's underlying performance and results.

Operating and underlying EBITDA, EBIT and earnings are financial measures which are not prescribed by Australian equivalents to International Financial Reporting Standards (AIFRS) and represent the earnings under AIFRS adjusted for specific items. The table above summarises the key reconciling items between net profit after tax attributable to InvoCare's equity holders and underlying EBITDA, EBIT and earnings before and after tax. The underlying EBITDA, EBIT and earnings before and after-tax information included in the table above has not been subject to any specific audit or review procedures by the auditor but has been extracted from the accompanying financial report.

In addition to clearly defining or segregating operating and non-operating financial performance of the Group. The adoption of recently applicable accounting standards (AASB 15 from 2018) have impacted InvoCare more than many companies given the large prepaid component of the business. From 2019, due to the methodology elected by InvoCare on adoption of AASB 16, there is no comparative financial data in 2018. This makes a simple comparison with previous years challenging.

Whilst the new accounting standards have changed the reported results, there have not changed the way InvoCare operates.

From the financial year ending 31 December 2020, the financial performance of InvoCare will reflect two full year impacts from both AASB 15 and AASB 16 other than the unwind of deferred revenue on the prepaid contract at time of transition.

Letter from the Chair of the People, Culture & Remuneration Committee

To our valued shareholders,

The Board is pleased to present the Remuneration Report for InvoCare for the year ended 31 December 2019, which sets out the remuneration strategy and framework for our key management personnel (KMP). As well as complying with our statutory obligations, each year we look to continuously improve our remuneration reporting, to make it easier to understand. To that end, we have introduced a new Q&A format that we hope you will find helpful and informative.

2019 performance reflects rollout of Protect & Grow strategy

InvoCare has a track record of delivering solid financial results over the long-term. Since its ASX listing in 2003, the Company has delivered an annualised Total Shareholder Return (TSR) of 17%.

While 2018 was a challenging year for the Company and for our shareholders, 2019 marks the second year of the implementation of our transformation under our Protect & Grow strategy. In 2019, we have seen this translate into improved performance and we believe completing the investment over the coming year will enable us to continue to deliver long-term, sustainable returns to our stakeholders.

The Board continues to ensure close alignment between shareholder and employee interests. In 2018 there were no fixed pay increases for KMP. Likewise, 2018 short term incentive (STI) were to a large extent forfeited and long-term incentive (LTI) vesting hurdles not met. A significant decline in the death rate contributed to the 2018 result that was largely beyond the direct control of management.

The improvement in 2019 year-on-year performance was pleasing and management and the Board remain enthusiastic about the year ahead. However, business performance in 2019 did not meet or exceed agreed targets in all areas and as a result, a proportion of STI has again been forfeited by the KMP and the wider Group Executive Team (GET).

We believe the remuneration outcomes for 2019 demonstrate continuing close alignment of performance and executive incentive rewards.

2020: the year ahead

The Board is committed to a remuneration framework that attracts, retains and motivates a high calibre team in what is a unique, emotionally challenging industry. To do this, we are constantly reviewing the effectiveness of the framework to ensure continued relevance in a changing environment, as well as remaining reflective of current market practices.

While there is a need to remain conservative, the Board felt that for retention and market equity reasons, some remuneration adjustments should be granted for 2020. After a zero fixed pay increase in 2019, the CEO and Non-Executive Directors will receive a 3% increase from 1 January 2020. Further detail around these increases can be found in sections F.I and G in this report.

We will continue to engage with investors, proxy advisors and independent remuneration consultants on our remuneration strategy. Last year we communicated that we had commissioned an independent report on market practices among peer companies for STI plans. As a result, a deferred component to the STI will be introduced in 2020.

The Board has also reviewed the effectiveness of the current LTI plan with particular focus on its ability to attract and retain senior management to ensure they are focussed on delivering longer term goals of all stakeholders while avoiding short term decision making. Changes to the LTI to align to both market practices and ensure for attraction and retention will take place in 2020, this will include the removal of retesting. Further detail around 2020 changes as they relate to the CEO will be provided in the Notice of the Annual General Meeting, with a full overview outlined in the 2020 Remuneration report.

We remain confident our approach to remuneration closely aligns shareholder and employee outcomes and we remain committed to continually improving in future to ensure InvoCare attracts, motivates and retains a high performing team.

Robyn Stubbs

Chair, People, Culture & Remuneration Committee

DIRECTORS' REPORT – REMUNERATION REPORT – AUDITED

The Board presents the 2019 Remuneration Report for InvoCare in accordance with the Corporations Act 2001 and its regulations. This report outlines the key remuneration policies and practices for the year ended 31 December 2019. It highlights the link between remuneration and corporate performance and provides detailed information on the remuneration for key management personnel (KMP).

The Remuneration Report is set out under the following sections:

A. Remuneration strategy

Principle and policy

The guiding principle underlying the executive remuneration philosophy is to ensure InvoCare reward and recognise the delivery of the Group's strategy, promote long term sustainable success, align management and stakeholder interests and encourage behaviours reflective of the One InvoCare culture.

InvoCare's remuneration policy is that:

- Key performance indicators should balance the near-term focus on current year results to drive value creation and reflect the need for sustainable outcomes
- Performance for incentive plan purposes is measured at the level which best aligns with driving accountability for the delivery of the business objectives
- All variable pay should align reward with the stakeholders and encourage a long-term view
- It should enable InvoCare to compete effectively to attract and retain the critical people InvoCare needs
- Reward must be aligned with, and promote the achievement of InvoCare's purpose and consistently demonstrating, living and promoting the InvoCare Values
- The Chief Executive Officer and Group Executive Team's (GET) total remuneration is benchmarked to comparable positions in comparable size companies (taking into account sales revenue, market capitalisation and industry), with the value of the incentives included in total remuneration based on amounts that can be achieved when overall Group performance targets are met

B. Key management personnel

For the purposes of this report, the key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Group or a major operation within the Group, as listed in Table 1 and 2 below.

Table 1 – Independent Non-Executive Directors

Name	Role	Date of appointment
Bart Vogel	Chairman	1 October 2017
Richard Davis		21 February 2012
Jackie McArthur		1 October 2018
Megan Quinn		1 October 2018
Keith Skinner		1 September 2018
Robyn Stubbs		1 January 2017

Table 2 – Executive key management personnel (KMP)

Name	Role	Date of appointment
Martin Earp	Managing Director and Chief Executive Officer (CEO)	1 May 2015
Damien MacRae	Chief Operating Officer (COO)	5 February 2018
Josée Lemoine	Chief Financial Officer (CFO)	8 September 2016

Management of the Group is delegated to the Group Executive Team (GET) comprising Martin Earp's direct reports. The Board has determined that not all members of the GET are considered Executive KMP other than those as listed in Table 2 above, as they do not have responsibility for planning, directing and controlling a substantial part of the operations of InvoCare. Periodically changes are made to the GET to reflect the evolving strategy and structure of the Group.

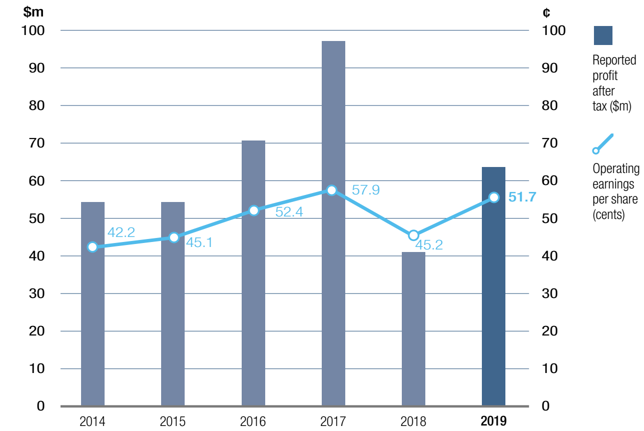
DIRECTORS' REPORT – REMUNERATION REPORT – AUDITED

C. 2019: how did we perform?

After a challenging year for InvoCare in 2018, as InvoCare continues to implement the Protect & Grow strategy, it is pleasing to see 2019 net profit after income tax increase by 55% and operating earnings per share (EPS) increase by 14%.

I. Relationship between remuneration and InvoCare's performance

The overall level of Executive KMP reward considers the performance of the Group over several years, with at risk remuneration linked to that performance. The remuneration approach, elements and mix has delivered an annualised 17% return for shareholders between listing in December 2003 and the end of 2019.



Relationship between STI performance payout versus operating earnings after tax

Table 3 outlines the Group's performance delivered over the past five years. It also provides details on the relationship between financial performance (EPS) over the last five years versus percentage of short-term incentive bonus (STI bonus) paid for CEO and average percentage of STI paid for other Executive KMP.

Table 3 – Key financial performance indicators

	2019	2018	2017	2016	2015
Net profit after income tax attributable to equity holders of InvoCare Limited ($'000)	**63,752**	41,224	97,439	70,949	54,844
Operating EBITDA ($'000)	**144,433**	118,998	124,316	115,344	110,089
Operating earnings after income tax* ($'000)	**59,202**	49,487	63,526	57,417	52,999
Basic EPS (cents)	**55.80**	37.80	88.80	64.70	50.10
Operating EPS (cents)	**51.70**	45.20	57.90	52.40	48.40
Dividend per share (cents)	**41.00**	37.00	46.00	42.50	38.00
Share price at 31 December ($)	**13.19**	10.30	16.10	13.80	12.01
% of Cash STI bonus paid to CEO	**62%**	32%	69%	92%	92%
Average % Cash STI bonus paid to other Executive KMP	**57%**	35%	68%	80%	81%

* *Operating earnings after tax excludes the net gain/(loss) on prepaid contracts, commissions received and costs associated with the administration of prepaid contracts, gain/(loss) on sale, disposal or impairment of non-current assets and non-controlling interests.*

II. 2019 remuneration outcomes vs financial performance

Element	Purpose	Link to performance	2019 changes and outcomes
Fixed remuneration			
Total fixed remuneration (TFR)	TFR (base salary plus fixed cost benefits) is targeted at the median of the market for expected performance with the opportunity to earn above median remuneration for exceptional performance.	TFR is benchmarked to be competitive to attract and retain experienced individuals to drive InvoCare's strategy. Changes to TFR are linked to a combination of rewarding high performance, and the capacity to pay.	There were no TFR increases awarded in 2019 to any Executive KMP. There were no changes to Board and committee fees in 2019.
At risk remuneration			
Short term incentive (STI)	STI is awarded for achievement of pre-determined financial and non-financial objectives. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for eligible roles to deliver annual business plans that will lead to sustainable superior returns for shareholders.	The following factors are among those considered by the People, Culture & Remuneration Committee (PCR Committee) in making its assessment on the achievement of the STI opportunity: o Financial performance o Our customers o Our people o Our safety o Key projects STIs are measured over a one year performance period and paid in cash.	There were no changes to the CEO or Executive KMP STI in 2019. For 2019 Executive KMP outcomes ranged from 52% to 65% of target. For further detail on 2019 STI outcome refer to Table 4 in Section D.III below.
Long term incentive (LTI)	The LTI Plan is aimed at attracting, rewarding and retaining high performing executives who contribute to the overall medium and long-term success of InvoCare.	InvoCare utilises incentives to align the long-term interests of executives with those of equity holders and to ensure that the participants are rewarded in line with the economic value created. LTI granted are in the form of a combination of options and performance rights. The ratio of options to performance rights granted is 75% and 25% respectively. The value of LTI awards offered in 2019 were up to a maximum of 85% of TFR for the CEO and up to a maximum 45% for other Executive KMP.	There were no changes to LTI's performance conditions in 2019 compared to 2018's grant. Target annual compound normalised EPS growth starts at 8% from grant year. For further details on LTI vesting outcome for 2019 refer to Table 10 and Table 11 in Section H.II below.

DIRECTORS' REPORT – REMUNERATION REPORT – AUDITED

D. Executive KMP remuneration overview

I. CEO 2019 remuneration details

a. What was target and actual remuneration in 2019?

The target remuneration for the CEO is set to place a considerable portion of remuneration at risk to align remuneration with both the Group's performance and the individual's personal influence and contribution to the Group's performance. The total maximum, target and actual remuneration for the CEO for the full year is summarised in the graph below.

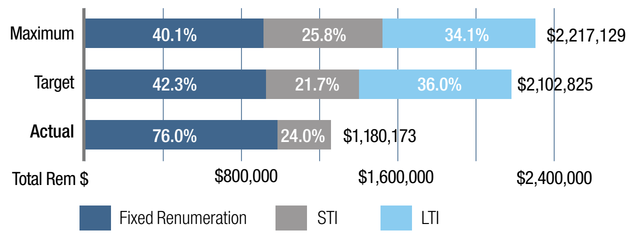
Maximum remuneration represents total potential remuneration of TFR, STI and LTI. For STI, the amount includes the 150% achievement for financial targets as prescribed by the STI performance targets conditions.

Target remuneration represents total potential remuneration of TFR, STI (achieved at 100% for both financial and non-financial targets) and LTI awarded (at 100% subject to performance and employment conditions to be met).

Actual remuneration in the graph below represents the take home amount for 2019 and consists of:

- Cash salary received during 2019 of $896,397, included non-cash benefits and excluded the movement of annual leave accruals
- STI awarded based on 2019 achievement of performance targets of $283,776
- No LTI awarded as performance hurdles for prior years' grant due for testing are not met

CEO remuneration maximum, target and actual



b. CEO remuneration breakdown

Total fixed remuneration (TFR)	TFR of $889,520 per annum There was no change to TFR for 2019
Short term incentive (STI)	Target STI of $457,213 (51.4% of TFR) The balanced scorecard was based on the following: o Financials 60% o Our customer 10% o Our people 10% o Our safety 10% o Key projects 10% The CEO received 62% of target STI for 2019 For further detail on 2019 STI outcome refer to Table 4 in Section D. III below
Long term incentive (LTI)	Target LTI of $756,092 (85% of TFR) Of the maximum LTI award, 75% is in options and 25% in performance rights For all the grants which were up for performance hurdle testing, 2015 and 2016 grants were partially met and 2017 grant was not met. For further details on LTI vesting outcome for 2019 refer to Table 10 and Table 11 in Section H.II below

c. CEO's employment terms

The total remuneration package is reviewed annually and the key terms are summarised below.

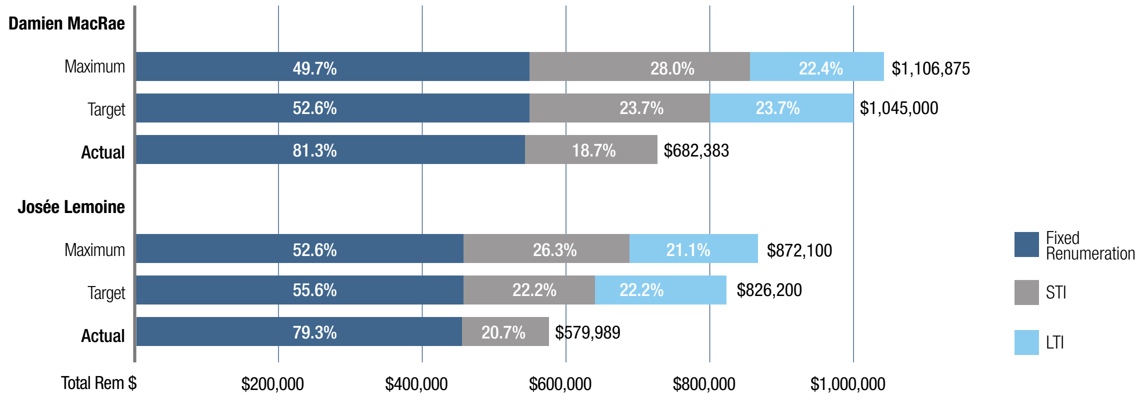
The Board intends seeking the approval of shareholders at the next Annual General Meeting (AGM) for the CEO's remuneration arrangements. The PCR Committee and Board have the discretion to provide additional performance incentives.

Terms	Conditions
Commencement date	Fixed term employment contract effective 1 April 2018
Contract duration	Three years
End date	31 March 2021
Notice period by employer	Six months
Notice period by employee	Six months
Termination entitlements	No redundancy payment entitlements. If there is any termination entitlements to be paid, they will be limited by the current Corporations Act 2001 (Cth) or the ASX Listing Rules or both
Post-employment restraints	12 months non-compete

II. Other Executive KMP 2019 remuneration details

Target remuneration for each Executive KMP is determined by the InvoCare framework. The total maximum, target and actual remuneration for the other Executive KMP for the full year is summarised in the graph below:

Other Executive KMP remuneration maximum, target and actual



Other Executive KMP employment terms

The total remuneration package is reviewed annually and the key terms are summarised below:

Terms	Conditions – COO	Conditions – CFO
Contract duration	No expiry date	No expiry date
Notice periods (by Company or by employee)	Six months	Six months
Redundancy entitlements	Any payment required under the Fair Work Act 2009 (Cth)	Any payment required under the Fair Work Act 2009 (Cth)
Post-employment restraints	12 months non-compete	Six months non-compete

III. Summary of 2019 STI performance

Financial targets are set with reference to the annual budget for the financial year. Participation percentages vary for each Executive KMP depending on their role and responsibilities.

Component	2019 performance targets	CEO – weight	COO – weight	CFO – weight	2019 performance outcome
Financial performance	Group EBITDA	50%	50%	50%	Target was partially met
	Funds under management growth	10%	-	-	Target was met
Our customer	Net Promoter Score	10%	10%	-	Target was partially met
	Market share growth – year on year	-	10%	-	Target was not met
Our people	Employee engagement	10%	10%	10%	Target was not met
	Employee turnover < 12 months tenure	-	10%	-	Target was met
Our safety	Lost time injury frequency rate (LTIFR)	10%	10%	10%	Target was met
Key projects	Align to the continued focus on the Protect & Grow strategy	10%	-	30%	Target was partially met

Based on achievements in 2019, the PCR Committee determined the Executive KMP forfeited an average of 40%, achieving an average of 60% of their target STI opportunity.

Table 4 – Executive KMP 2019 STI outcome

Executive KMP	Performance target	Achievement	Target STI potential $	Actual STI awarded as a % of target STI potential	Actual STI awarded $	STI forfeited as a % of target STI potential
Martin Earp	Financial	37%	457,213	62%	283,776	38%
	Customer	5%				
	People	0%				
	Safety	10%				
	Key projects	10%				
Damien MacRae	Financial	26%	247,500	52%	127,653	48%
	Customer	5%				
	People	10%				
	Safety	10%				
Josée Lemoine	Financial	27%	183,600	65%	120,251	35%
	People	0%				
	Safety	10%				
	Key projects	28%				

E. Remuneration governance and framework

I. InvoCare's remuneration governance framework

InvoCare Board of Directors	People, Culture & Remuneration Committee*	Management
Ensuring the Group's remuneration framework is aligned with the Group's purpose, core values, strategic objectives and risk appetite. Monitoring GET performance and implementation of the Group's objectives against measurable and qualitative indicators.	Approving the Group's overall remuneration policy and process. Reporting to the Board on corporate culture within the Group and making recommendations to the Board regarding corporate governance policies to support a strong corporate culture. Reviewing and recommending to the Chair arrangements for the CEO and the GET in relation to their terms of employment, remuneration and participation in the Group's incentive programs (including performance targets). Reviewing and recommending to the Board the remuneration arrangements for the Chair and Non-Executive Directors of the Board, including fees, travel and other benefits.	Implementing remuneration policies and practices. Providing information relevant to remuneration decisions and makes recommendations to the PCR Committee with respect to remuneration arrangements. Making recommendations to the PCR Committee in relation to the design and implementation of the remuneration strategy and structure.

* *The full charter for the PCR Committee is displayed on the InvoCare website.*

II. Use of remuneration advisors

From time to time, the PCR Committee engages external remuneration consultants to provide independent benchmarking data and information on best practice and community expectations. This ensures InvoCare continually reviews, assesses and adapts the remuneration governance functions to assist the Board and the committee in making informed decisions.

During 2019, the PCR Committee commissioned an external consultancy group to provide the following information:

- Peer market practices for a deferred component to the STI plan
- A comprehensive review on the existing LTI plan

No remuneration recommendations as defined by the *Corporations Act 2001* were provided by the external consultancy group.

III. Remuneration structure

a. Total fixed remuneration

What is total fixed remuneration?	Base salary, superannuation and any other benefits e.g. motor vehicle.
How is total fixed remuneration determined?	TFR (base salary plus fixed cost benefits) is targeted at the median of the market for expected performance with the opportunity to earn above median remuneration for exceptional performance. TFR is benchmarked to be competitive to attract and retain experienced individuals to drive InvoCare's strategy. Changes to TFR are linked to a combination of rewarding high performance, and the capacity to pay.

b. Short term incentive

What is the purpose of the STI plan?	STI aims to provide an incentive for senior executives to deliver annual business plans that will lead to sustainable superior returns for shareholders. Target based STIs are intended to modulate the cost to the Group of employing senior executives, so that risk is shared with the senior executives themselves and the cost to the Company is reduced in periods of poor performance. The incentive plan has been developed to reinforce InvoCare's values and behaviours, while supporting a commercial mindset and alignment to business objectives.
What is the performance period?	The Group's financial year is from 1 January to 31 December.
What is the award opportunities?	In 2019 target STI as a percentage of TFR was 51.4% for the CEO and from 40% - 45% for the Executive KMP.
What key performance indicators (KPIs) are measured for STI to be paid?	STI outcomes are directly linked to both individual performance against KPIs and on the performance of the Group. The Board has focussed the Executive KMP on five main areas, which align to the Protect & Grow strategy: ○ Financial performance ○ Our customers ○ Our people ○ Our safety ○ Key projects STI attainment is determined excluding the impact of change in accounting standards. For further detail on 2019 STI outcome refer to Table 4 in Section D.III above.
What is the relationship between performance scales and outcome?	*(see table below)*
Is overachievement applicable for all the components of the STI?	No. Overachievement is only available on the financial components of the STI and this is capped at 150%.
Are non-financial components capped?	Yes. Non-financial components are capped at 100% payment.
When is STI paid?	Incentives are payable in cash in the first quarter of each year after the completion of the audit of the results for the previous year ended 31 December.
Are there any disqualification provisions?	All financial performance data relating to the plan is subject to external audit. Potential participants may be disqualified from all or part of the plan if their annual performance is determined to be below the "on track" rating category in the performance management practices. Should a dispute arise regarding a potential disqualification, eligibility will be at the discretion of the CEO, or the Board for the CEO. InvoCare reserves the right to suspend or alter payments to any participant in the plan due to any action which has caused the Group loss or reputational damage.
How is STI treated on cessation of employment?	In the event of cessation of employment due to resignation or dismissal for cause, all entitlements in relation to the performance period are forfeited. Where an executive's employment is terminated by the Company for any reason other than cause, the relevant executive may receive a pro-rated portion of their STI opportunity based on the portion of the performance year served and the incentive paid or payable in respect of the immediately preceding financial year.

What is the relationship between performance scales and outcome?

Performance scales	STI outcome
Below threshold	0% paid
Between threshold and target – For the financial components, threshold is 95%	50% earned on achievement of threshold level performance, increasing on a straight-line basis to 100% for target level performance.
Target	100% paid
Maximum – For financial components only	100% earned at target level performance, increasing on a straight-line basis to 150% earned on achievement of maximum level performance.

c. Long term incentive

What is the purpose of the LTI Plan?	The LTI Plan is aimed at attracting, retaining and rewarding high performing executives who contribute to the overall medium and long-term success of InvoCare.
Who participates in the LTI plan?	Participation is limited to Executive KMP and selected high performing or high potential senior managers by invitation, and as approved by the Board.
What size of award is granted?	The 2019 LTI target opportunity was 85% of TFR for the CEO and 40% - 45% for other Executive KMP.
Plan features	The LTI awards are in the form of options and performance rights subject to vesting conditions. The ratio of options and performance rights are at 75% and 25% for Executive KMP.
How are the grants calculated?	The number of options is calculated based upon the value of LTI to be awarded in options divided by the option valuation at the award date. The option value is determined using a Black-Scholes valuation methodology. The valuation for allocation excludes dividends and does not incorporate any discount relating to the performance and tenure conditions. The number of performance rights is calculated at the date of issue by dividing the value of LTI to be awarded in the form of performance rights by the face value of an InvoCare share. The face value is based on the 10-day volume weighted average price (VWAP) for InvoCare shares starting from the first day of the trading window immediately following the announcement of the full-year result.

What are the performance hurdles?
 	
Is there a gateway before any LTI awards can vest?
	Performance hurdles:
	◦ Continued employment condition
	◦ Compound growth per annum in normalised earnings per share (EPS) over the vesting period
	
	A 'gateway' condition must be met before any LTI awards can vest. The gateway requires a minimum level of return on invested capital (ROIC) greater that the weight average cost of capital (WACC) (refer to EPS performance conditions summarised below for details of the ROIC gateway and stretch targets). This is a safety net to ensure that capital is being employed efficiently and earnings growth is translating to shareholder value. ROIC is defined as the annual operating earnings (excluding net finance costs and after deducting tax) divided by the average invested capital during the year (being the average of the beginning and end of year balances of total assets less surplus cash less non-interest bearing liabilities).
	
	"Normalised earnings" means reported profit as adjusted:
	◦ To remove the impacts of any gains or losses arising from the sale, disposal or impairment of non-current assets
	◦ To maintain consistency in accounting policies across the respective vesting periods for each grant
	◦ For LTI awards from February 2018:
	  • To reflect constant currency
	  • To remove impacts of prepaid contracts and associated funds under management

Why were these measures chosen?	Compound growth per annum of normalised EPS was selected as the most suitable and reliable measure of organisational performance, based on independent advice and analysis by the Board. The reasons for this conclusion include: ◦ InvoCare is a unique and relatively stable business ◦ EPS growth is aligned with InvoCare's strategic objectives and, together with the introduction of a ROIC gateway, more closely reflects management performance and success in incrementally creating value through good decision making and sustained and improving performance over time ◦ EPS remains a preferred metric to TSR, which the Board continues to monitor

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What are the performance conditions?

Subject to the ROIC gateway condition, the EPS performance conditions applying for LTI awards from 2018 are as follows:

EPS growth	Percentage of target that vests
Less than 8%	Nil
8%	30%
Between 8% and 12%	Pro rata vesting on a straight-line basis
12% and above	100%

Subject to the ROIC gateway condition, the EPS performance conditions applying for LTI awards in 2016 and 2017 are as follows:

EPS growth	Percentage of target that vests
Less than 7%	Nil
7%	30%
Between 7% and 12%	Pro rata vesting on a straight-line basis
12% and above	100%

What happens on ceasing employment?

For the options and performance rights to vest, the employee must be employed at the date of vesting unless the termination of employment has been determined to be a good leaver.

For good leavers, providing a participant has at least three years employment with InvoCare and has not engaged in proscribed conduct (meaning serious and wilful misconduct, wilful disobedience, gross negligence or incompetence, disqualification under Corporations Act or serious breaches of contract of employment), the Board may at its discretion allow unvested awards to continue on foot and vest subject to the original terms and performance conditions attaching to the relevant grants, regardless of whether or not the participant is employed by InvoCare at the relevant vesting time.

If no determination is made by the Board, all equity awards held by the participant will lapse upon termination of employment.

The Board has the discretion to determine that any LTI benefit payable in the above termination circumstances can be settled in cash.

What happens if a change in control occurs?

In the event of a change in control or other circumstances where the Board determines it is not practical or appropriate for the unvested awards to continue on foot, the Board has the discretion to determine the extent to which all or part of any unvested equity may vest and the specific performance testing to be applied.

Are there dividends or voting rights?

There are no dividends or voting rights attached to the options and performance rights awarded. It is only if the options and performance rights vested and exercised that there will be any entitlement.

Is there a clawback policy included?

Payments or vesting related to performance conditions associated with LTI are subject to a clawback policy. The Group will seek to clawback all or part of an executive's incentives that has already been paid to ensure the executive has not been inappropriately awarded in circumstances including:

- A material misstatement or omission in the Group's financial statements
- If actions or inactions seriously damage the Group's reputation or put the Group at significant risk
- A material abnormal occurrence results in an unintended increase in the award

InvoCare Share Trading Policy

In accordance with InvoCare's Share Trading Policy, senior managers are prohibited from trading in the Company's shares other than during specified trading windows, or with approval in exceptional circumstances, provided they do not possess inside information. In addition, senior managers are not permitted to enter into transactions with their shareholding in the Company which operate to limit the economic risk of their shareholding (e.g. margin loans, hedging or cap and collar arrangements), include limiting the economic risk of holdings of unvested entitlements associated with LTI securities.

IV. Executive KMP remuneration details – statutory basis

Table 5 below discloses the remuneration for Executive KMP calculated in accordance with statutory requirements and Accounting Standards. Refer to table note underneath Table 5 for the relevant statutory and accounting requirements.

Table 5 – Total Executive KMP remuneration – statutory basis

		Short-term employee benefits			Post-employment benefits		Long-term benefits	Share based payments	Total
		1	2	3	4		5	6	
		Cash salary and leave accruals $	Short term incentive $	Non-monetary benefits $	Super-annuation $	Termination payments $	Long service leave accruals $	Options and performance rights $	$
Martin Earp	**2019**	**842,702**	**283,776**	**77,127**	**25,000**	**-**	**13,097**	**(232,563)**	**1,009,139**
	2018	761,054	147,177	72,397	22,886	-	14,159	81,215	1,098,888
Damien MacRae appointed 5 February 2018	**2019**	**527,017**	**127,653**	**4,730**	**25,000**	**-**	**8,749**	**(68,779)**	**624,370**
	2018	502,359	82,170	-	21,570	-	7,926	68,779	682,804
Josée Lemoine	**2019**	**431,676**	**120,251**	**4,730**	**25,000**	**-**	**7,262**	**(154,260)**	**434,659**
	2018	444,180	37,069	-	20,290	-	7,539	90,566	599,644

Footnote to Table 5

a The remuneration mix for the Executive KMP based on the remuneration details in Table 5 above are:

- Martin Earp: 96% fixed and 4% at-risk (2018: 69% fixed and 31% at-risk)
- Damien MacRae: 91% fixed and 9% at-risk (2018: 74% fixed and 26% at-risk)
- Josée Lemoine: 100% fixed and 0% at-risk (2018: 74% fixed and 26% at-risk)

The 2019 remuneration mix had a higher fixed remuneration compared to 2018. This was impacted by the negative value of share based payments value in 2019. The share-based payments value in 2019 is lower than 2018 is due to the performance hurdle forecast to be partially met at a lower rate in 2019 for all options and performance rights whilst in 2018 it was forecast to be met at a higher rate.

b During 2019, the Board re-assessed Goh Wee Leng's classification as Executive KMP and determined that she was no longer involved in strategic planning, direction and control of the activities of the Group. Effective from 1 January 2019, Goh Wee Leng ceased as KMP, her total 2018 remuneration was $334,103.

Table notes to Table 5

1 The total cost of cash salary and leave accruals, including annual leave taken and the increase or decrease in the annual leave provision applicable as determined in accordance with the Accounting Standard AASB 119 Employee Benefits.

2 The amount to be settled in cash relating to performance of the Group and the individual for the financial year from 1 January to 31 December. The proportions of STI bonuses awarded and forfeited are set out in Table 4 in section D. III of this Remuneration Report.

3 The cost to the Company, including any fringe benefits tax, for the provision of fully maintained cars, free parking and other items.

4 Superannuation contributions are paid in line with legislative requirements.

5 Long service leave accruals are determined in accordance with Accounting Standard AASB 119 Employee Benefits.

6 The amount amortised as an expense in the financial year in accordance with Australian Accounting Standards which require the value of long-term share-based incentive grants to be amortised as an expense over the relevant future vesting periods. The amounts shown relate to unvested shares, options and performance rights grants made in the current and past financial years. Subject to meeting the vesting conditions of the grants, the shares, options or performance rights will vest, or be forfeited, in future financial years.

F. The year ahead – what can we expect in 2020?

I. Total fixed remuneration

The CEO has received a 3% increase to Total Remuneration effective 1 January 2020.

Table 6 – 2020 CEO potential remuneration breakdown

Total fixed remuneration (TFR)	TFR of $916,206 per annum. This represents a 3% increase from $889,520 in 2019.
Short term incentive (STI)	Target STI of $470,930 (51.4% of TFR). This represents a 3% increase from $457,213 in 2019. The balanced scorecard is based on the following: o Financials 50% o Our customer 20% o Our people 10% o Our safety 20% For further details on 2020 STI refer to Table 7 in Section F. II below.
Long term incentive (LTI)	Target LTI of $778,775 (85% of TFR). This represents a 3% increase from $756,092 in 2019. Of the maximum LTI award, 75% is in options and 25% in performance rights.

II. STI 2020

The Executive KMP 2020 STI opportunity will be subject to key performance conditions and weightings as follows:

Table 7 – 2020 STI performance targets

Component	2020 performance targets	CEO – weight	COO – weight	CFO – weight	Why this was chosen?
Financial performance	Group EBIT	50%	50%	50%	Moving to EBIT reflects the operating results and the investment in capital.
Our customer	Net Promoter Score	10%	10%	10%	Customer feedback and satisfaction remains core to the service offering.
	Market share growth	10%	10%	10%	Creating long term value.
Our people	Employee turnover < 12 months tenure	10%	10%	10%	People are InvoCare's greatest asset. This encourages greater involvement and consideration around all recruitment activity in the regions.
Our safety	LTIFR	20%	20%	20%	InvoCare continue to reinforce the commitment to safety in the workplace.

For 2020 the decision has been made to remove the operational projects component as the Protect & Grow delivery winds down.

G. Non-Executive Director remuneration

I. Fee structure and policy

The following table outlines the Non-Executive Directors (NED) fee policy and any changes introduced for 2020.

Maximum aggregate fees approved by shareholders	Non-Executive Directors' base fee for services as directors are determined within an aggregate directors' fee pool cap, which is periodically approved by shareholders. At the date of this report, the pool cap is $1,250,000, being the amount approved by shareholders at the AGM held on 22 May 2015.
Contracts	On appointment to the Board, all NED receive a letter of appointment which summarises the Board policies and terms, including compensation, relevant to the office of director.
Non-Executive Director fee reviews	The Board reviews NED fees on an annual basis in line with general industry practice. This ensures fees are appropriately positioned in the market to attract and retain high calibre individuals. Fees are set as a base fee and additional responsibilities and committees are inclusive of this (excluding the Chair of the Audit, Risk & Compliance committee). NED are entitled to be reimbursed for all reasonable costs and expenses incurred by them in performing their duties. The NED fees remained unchanged for 2019. **NED fee changes effective 1 January 2020** As part of reviewing NED fee levels for 2020, the Board took into account the fact the base fees are inclusive of committee fees, the establishment of additional committees and alignment to market. The introduction of an Environmental, Social and Governance (ESG) Committee and a Customer Committee, consisting of both NED and GET members, was established, reflecting InvoCare's purpose, sustainability and the strategic development of the customer experience. To maintain market equity, the Board determined an increase of 3% to the base fee from 1 January 2020 for the Chairman and the NED roles. No changes to the Chair of the Audit, Risk & Committee fee will be made in 2020. Refer to Table 8 below for details of current and new NED fees. The aggregation of all Board and committee fees for 2020 remains below the current pool limit.
Additional or special duties	The base fees exclude any remuneration determined by the directors where a director performs additional or special duties for the Company. If a NED performs additional or special duties for the Company, they may be remunerated as determined by the Board and that remuneration can be in addition to the limit mentioned above. Whilst all directors have contributed actively to the Board and special projects beyond the Board room during the year, these contributions have been made as directors and as such have not resulted in any additional payments.
Superannuation	The fees set out above include superannuation contributions in accordance with relevant statutory requirements.
Equity participation	NED may receive options as part of their remuneration, subject only to shareholder approval. No options are held by any NED at the date of this report. NED of InvoCare Limited are encouraged to acquire a minimum equity interest in the Company equivalent in value to 50% of their annual director's fee applying at the time of their appointment as a director of the Company and that Non-Executive Directors be allowed up to three years to accumulate the required shareholding. Non-Executive Directors' equity holdings are set out in Table 14 in Section H.VI.
Post-employment benefits	NED are not entitled to any compensation on cessation of employment.

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Table 8 – Non-Executive Director fees (inclusive of superannuation)

Board/Committee	Role	Prior 1 January 2020 Per Role $	Prior 1 January 2020 Total $	From 1 January 2020 Per Role $	From 1 January 2020 Total $
Board base fee	Chairman	277,370	277,370	285,691	285,691
	Non-Executive Directors	138,680	693,400	142,840	714,200
Audit, Risk & Compliance Committee	Chairman	11,560	11,560	11,560	11,560
Total			**982,330**		**1,011,451**

II. Non-Executive Directors remuneration details

Table 9 below provides the remuneration details for the Non-Executive Directors on the Company's Board. For any directors appointed during the financial year, their remuneration has been pro-rated from the date of appointment to the end of the financial year.

Table 9 – Total Non-Executive Directors remuneration

		Short term employee benefits – Board and committee fees $	Post-employment benefits – Superannuation $	Total $
Bart Vogel Appointed as Chairman from 1 October 2018	**2019**	**253,306**	**24,064**	**277,370**
	2018	159,260	14,044	173,304
Richard Davis	**2019**	**126,648**	**12,032**	**138,680**
	2018	126,648	11,983	138,631
Jackie McArthur Appointed 1 October 2018	**2019**	**126,648**	**12,032**	**138,680**
	2018	31,662	3,008	34,670
Megan Quinn Appointed 1 October 2018	**2019**	**126,648**	**12,032**	**138,680**
	2018	31,662	3,008	34,670
Keith Skinner Appointed 1 September 2018	**2019**	**137,205**	**13,035**	**150,240**
	2018	45,735	4,345	50,080
Robyn Stubbs	**2019**	**126,648**	**12,032**	**138,680**
	2018	126,648	11,983	138,631

During 2018, the following Non-Executive Directors retired or resigned, and their total remuneration received during the period from 1 January 2018 to the date of ceasing as KMP were:

- Richard Fisher, former Chairman, retired 30 September 2018, his total remuneration was $219,815
- Joycelyn Morton retired 31 May 2018, her total remuneration was $75,051
- Gary Stead resigned 31 December 2018, his total remuneration was $138,631

H. Statutory disclosures

I. LTI plan

The Executive KMP were granted LTI in the form of a combination of options and performance rights (under the Performance Long-term Incentive Plan) and shares (under the Deferred Employee Share Plan, which was replaced by the Performance Long-term Incentive Plan from 2016 onwards).

The key terms and conditions of the LTI granted are disclosed in Note 20 Share-based remuneration section B and C. Refer to Section II below for the performance to date of all LTI grants impacting the value of Executive KMP remuneration.

II. Performance to date of LTI grants

a. Performance Long-term incentive Plan's grants

Table 10 below summarises the performance to date for the LTI grants under the Performance Long-term Incentive Plan (PLTIP) since 2016 which impact remuneration in the current or a future financial year.

Table 10 – Performance of outstanding LTI granted via PLTIP

Grant	Tranche	Performance hurdle [a]	First testing / vesting date	Performance target at grant date	Retesting of unvested rights	Vesting outcome %
2016 grant – three equal tranches	Tranche One	30% vesting at 7% CAGR 100% vesting at 12% CAGR Pro rata vesting in between 7% and 12% 0% vesting if less than 7% CAGR	February 2018	49.7 cents [b, c]	No retesting is required	100
	Tranche Two		February 2019		First test in 2019	0
					Retest in 2020	100
	Tranche Three		February 2020		First test in 2020	100
2017 grant – three equal tranches	Tranche One	30% vesting at 7% CAGR 100% vesting at 12% CAGR Pro rata vesting in between 7% and 12% 0% vesting if less than 7% CAGR	February 2019	65.4 cents [b, c]	First test in 2019	0
					Retest in 2020	0
	Tranche Two		February 2020		First test in 2020	0
	Tranche Three		February 2021		N/A	N/A
2018 grant – two equal tranches	Tranche One	30% vesting at 8% CAGR 100% vesting at 12% CAGR Pro rata vesting in between 8% and 12% 0% vesting if less than 8% CAGR	February 2021	57.8 cents [b, d]	N/A	N/A
	Tranche Two		February 2022		N/A	N/A
2019 grant – two equal tranches	Tranche One	30% vesting at 8% CAGR 100% vesting at 12% CAGR Pro rata vesting in between 8% and 12% 0% vesting if less than 8% CAGR	February 2022	35.9 cents [d]	N/A	N/A
	Tranche Two		February 2023		N/A	N/A

a *The performance target is annual compound normalised EPS growth (CAGR) from 1 January of grant year.*

b *During the performance testing for 2018 results, a calculation error was identified, hence, the performance targets at grant date for the 2016 to 2018 grants were impacted. The performance targets for 2016 to 2018 grants were updated in Table 8 above. However, the change in performance targets do not impact any of the performance outcome for prior years.*

c *Including financial performance on funds under management on prepaid contracts.*

d *Excluding financial performance on funds under management on prepaid contracts.*

b. Deferred Employee Share Plan's grants

Table 11 below summarises the performance to date for the LTI grants under the Deferred Employee Share Plan (DESP, a legacy plan which was no longer grant performance based LTI) for 2015 which impact remuneration in the current financial year for the last time.

Table 11 – Performance of outstanding LTI granted via DESP

Grant	Tranche	Performance hurdle [a]	First testing / vesting date	Performance target at grant date	Retesting of unvested rights	Vesting outcome %
2015 grant – three equal tranches	Tranche One	30% vesting at 7% CAGR 100% vesting at 10% CAGR Pro rata vesting in between 7% and 10% 0% vesting if less than 7% CAGR	February 2017	49.1 cents [b, c]	No retesting is required	100
	Tranche Two		February 2018		No retesting is required	100
	Tranche Three		February 2019		First test in 2019	0
					Retest in 2020	100

a *The performance target is annual compound normalised EPS growth (CAGR) from 1 January of grant year.*

b *During the performance testing for 2018 results, a calculation error was identified, hence, the performance targets at grant date for the 2015 grant was impacted. The performance target for 2015 was updated in Table 11 above. However, the change in performance target does not impact any of the performance outcome for prior years.*

c *Including financial performance on funds under management on prepaid contracts.*

III. Fair value and maximum value for LTI grants

Table 12 below provided the fair value of all outstanding LTI grants at grant date and the maximum potential value for the Executive KMP. If the performance conditions are not met, the minimum value of the LTI will be nil.

Table 12 – Fair value and maximum value for LTI grants

	Executive KMP	Grant date	Fair value per LTI $	Number of LTI granted	Performance period	Maximum value to be recognised from grant date $
Shares granted under DESP	Martin Earp	31/03/2015	13.74	17,410	1 January 2015 to 31 December 2019	239,200
Options granted under PLTIP [a]	Martin Earp	01/01/2016	2.40	160,313	1 January 2016 to 31 December 2020	384,750
		01/01/2017	2.93	133,284	1 January 2017 to 31 December 2021	390,521
		01/01/2018	2.78	203,982	1 January 2018 to 31 December 2022	567,069
		01/01/2019	2.51	225,923	1 January 2019 to 31 December 2023	567,067
	Damien MacRae	01/01/2018	2.78	66,772	1 January 2018 to 31 December 2022	185,625
		01/01/2019	2.51	73,954	1 January 2019 to 31 December 2023	185,625
	Josée Lemoine	01/01/2016	2.40	14,754	1 January 2016 to 31 December 2020	35,410
		01/01/2017	2.93	46,075	1 January 2017 to 31 December 2021	135,000
		01/01/2018	2.78	49,532	1 January 2018 to 31 December 2022	137,699
		01/01/2019	2.51	54,860	1 January 2019 to 31 December 2023	137,699
Performance rights granted under PLTIP [b]	Martin Earp	01/01/2016	12.08	10,617	1 January 2016 to 31 December 2020	128,250
		01/01/2017	14.06	9,258	1 January 2017 to 31 December 2021	130,174
		01/01/2018	13.91	13,589	1 January 2018 to 31 December 2022	189,023
		01/01/2019	12.96	13,072	1 January 2019 to 31 December 2023	189,021
	Damien MacRae	01/01/2018	13.91	4,448	1 January 2018 to 31 December 2022	61,875
		01/01/2019	12.96	4,279	1 January 2019 to 31 December 2023	61,874
	Josée Lemoine	01/01/2016	12.08	2,931	1 January 2016 to 31 December 2020	35,410
		01/01/2017	14.06	3,201	1 January 2017 to 31 December 2021	45,000
		01/01/2018	13.91	3,300	1 January 2018 to 31 December 2022	45,900
		01/01/2019	12.96	3,174	1 January 2019 to 31 December 2023	45,896

a *The grant date fair value of the options granted under PLTIP using Black-Scholes valuation methodology.*

b *The grant date fair value of the performance rights granted under PLTIP equals the 10-day VWAP starting from the first day of the trading window immediately following the announcement of the full year result.*

IV. Movements in LTI grants

Table 13 below provides the movement of all outstanding LTI grants for the Executive KMP during 2019.

Table 13 – Movement of LTI grants

	Executive KMP	Number of LTI held at 1 January 2019	Number of LTI granted during 2019	Number of LTI vested and exercised during 2019	Number of LTI lapsed during 2019	Number of LTI held at 31 December 2019
Shares granted under DESP	Martin Earp	5,804	-	-	-	5,804
Options granted under PLTIP	Martin Earp [a]	497,579	225,923	-	-	723,502
	Damien MacRae	66,772	73,954	-	-	140,726
	Josée Lemoine [b]	110,361	54,860	-	-	165,221
Performance rights granted under PLTIP	Martin Earp	29,925	13,072	-	-	42,997
	Damien MacRae	4,448	4,279	-	-	8,727
	Josée Lemoine	8,455	3,174	-	-	11,629

a *At 1 January 2019 and 31 December 2019, Martin Earp holds 53,438 vested and exercisable options.*

b *At 1 January 2019 and 31 December 2019, Josée Lemoine holds 4,918 vested and exercisable options.*

V. Loans to Executive KMP

There were no loans at the beginning or at the end of the financial year ended 31 December 2019 to the Executive KMP. No loans were made available to Executive KMP during 2019.

VI. Shareholdings of Non-Executive Directors and the Executive KMP

Table 14 below summarises the movement in holdings of InvoCare ordinary shares during the year and the balance at the end of the financial year, both in total and held indirectly by related parties of the KMP.

Table 14 – Movement of shareholding interests of Directors in accordance with section 205G of the Corporations Act 2001 and the other Executive KMP

		Balance as at 1 January 2019	Grant as compensation	Exercise of LTI vested during 2019	Net other changes during 2019	Total shares held directly and indirectly as at 31 December 2019*
		Number	Number	Number	Number	Number
Non-Executive Directors	Bart Vogel	15,000	-	-	1,129	16,129
	Richard Davis	260,000	-	-	(60,000)	200,000
	Jackie McArthur	-	-	-	4,000	4,000
	Megan Quinn	-	-	-	-	-
	Keith Skinner	-	-	-	1,084	1,084
	Robyn Stubbs	7,905	-	-	-	7,905
Executive KMP	Martin Earp	21,378	-	-	1,293	22,671
	Damien MacRae	-	-	-	1,000	1,000
	Josée Lemoine	977	-	-	-	977

* *Shares held indirectly are included in the column headed Total shares held at 31 December 2019. Total shares are held directly by the KMP and indirectly by the KMP's related parties, inclusive of domestic partner, dependents and entities controlled, jointly controlled or significantly influenced by the KMP.*

I. Additional information

Former Chief Executive Officer – Andrew Smith

At the AGM held on 20 May 2016, shareholders approved the cash settlement of LTI shares held by the former chief executive officer, Andrew Smith, subject to the satisfaction of the original vesting conditions.

The relevant performance tests have been applied to the unvested grants totalling 7,559 and they are fully vested on 21 February 2020.

This concludes the Remuneration Report which has been audited.

DIRECTORS' REPORT – OTHER STATUTORY MATTERS

Directors

The directors of InvoCare Limited at any time during or since the end of the financial year are as listed below. Directors were in office for the entire period until otherwise stated:

Name	Role
Bart Vogel	Chairman
Martin Earp	Managing Director and Chief Executive Officer
Richard Davis	Independent Non-Executive Director
Jackie McArthur	Independent Non-Executive Director
Megan Quinn	Independent Non-Executive Director
Keith Skinner	Independent Non-Executive Director
Robyn Stubbs	Independent Non-Executive Director

Directorship of other listed companies

Directorship of other listed companies held by the directors in the three years preceding the end of the financial year are as follows.

Name	Company	Period of directorship
Bart Vogel	Macquarie Telecom Limited	Since 2014
	Infomedia Ltd	Since 2015
	Salmat Limited	From May 2017 to November 2019
Martin Earp	None	
Richard Davis	Australian Vintage Ltd	Since 2009
	Monash IVF Group Limited	Since 2014
Jackie McArthur	Inghams Group Limited	Since 2017
	Tassal Group Limited	Since 2018
	Blackmores Limited	From April 2018 to August 2019
Megan Quinn	City Chic Collective Limited (formerly known as Specialty Fashion Group Limited)	Since 2012
	Reece Limited	Since 2017
	Zip Co Limited	From August 2016 to November 2017
Keith Skinner	Emeco Holdings Limited	Since 2017
Robyn Stubbs	Aventus Group – Aventus Retail Property Fund and its subsidiaries	Since 2015
	Brickworks Limited	Since 2020

Directors' profiles

Bart Vogel BCom (Hons), FCA, FAICD

Independent Non-Executive Chairman

Bart Vogel was appointed to the InvoCare board of directors on 1 October 2017, and as Chairman of the Board from 1 October 2018.

Bart serves on the Audit, Risk & Compliance Committee, People, Culture & Remuneration Committee and Nomination Committee.

Bart's career includes 20 years in the management consulting industry, as a partner with Deloitte Consulting, A.T. Kearney and Bain & Company, focussed on the technology and services sectors. In his consulting roles, Bart has spent extensive time working in global markets with multinational corporates and government bodies. He also spent 13 years in senior executive roles at Asurion Australia, Spherion Limited and as the Asia Pacific leader of Lucent Technologies.

Bart is a director of listed companies Infomedia Ltd (serves as chairman) and Macquarie Telecom Limited and was a director of Salmat Limited. He is also a director of BAI Communications and of the Children's Cancer Institute Australia.

Martin Earp BSc (Hons), MSc, MBA

Managing Director and Chief Executive Officer

Martin Earp joined InvoCare on 30 March 2015. Martin was appointed to the InvoCare board of directors on 13 April 2015 and assumed the role of Managing Director and CEO on 1 May 2015.

Prior to joining InvoCare, Martin was the CEO of Campus Living Villages and was responsible for the strategic direction and operational leadership of the company. He worked for Transfield Holdings for over twelve years in a number of operational roles including CEO of the Australian Biodiesel Group (ASX listed company), General Manager for Airtrain (where he also served as a director for eight years) and Business Development Manager for Airport Rail Link. Prior to this he worked for a London based transport consultancy advising on large infrastructure and investment deals.

Jackie McArthur BEng, MAICD

Independent Non-Executive Director

Jackie McArthur was appointed to the InvoCare board of directors on 1 October 2018.

Jackie serves on the Audit, Risk & Compliance Committee, Investment Committee and Nomination Committee.

Jackie has over 20 years' experience at board and executive levels in strategic planning processes, organisational design, operations, franchising systems, retail, supply chain, logistics, transport, food processing and manufacturing, emerging brand issues and crisis management, risk management, corporate social responsibility and compliance issues, as well as governance at a global level, across Australia, Asia and globally.

Most recently she was managing director, Australia and New Zealand, of Martin-Brower ANZ, the exclusive distributor to McDonald's restaurants across Australia and New Zealand. Previously, for more than 13 years, she held various senior executive positions with McDonalds, both in Australia and overseas, including vice president of supply chain for Asia, Pacific, Middle East and Africa and, in McDonalds Australia, as senior vice president chief restaurant support officer and vice president supply chain director.

Jackie is a director of listed companies Inghams Group Limited and Tassal Group Limited.

Jackie was the 2016 Telstra NSW Business Woman of the Year and overall 2016 Telstra Business Women's Awards - Corporate and Private National Winner. She has completed the INSEAD International Executive Program.

DIRECTORS' REPORT – OTHER STATUTORY MATTERS

Directors' profiles

Richard Davis BEc

Independent Non-Executive Director

Richard Davis was appointed to the InvoCare board of directors on 21 February 2012.

Richard is the Chair of Investment Committee and serves on the People, Culture & Remuneration Committee and Nomination Committee.

Richard previously retired as InvoCare's Chief Executive Officer and Managing Director on 31 December 2008 after 20 years with InvoCare. For the majority of that time, he held the position of Chief Executive Officer and successfully initiated and managed the growth of the business through a number of ownership changes and over 20 acquisitions, including Singapore Casket Company (Private) Limited, the Company's first international acquisition.

Richard is the chairman of Australian Vintage Limited and Monash IVF Group Limited. Richard is also serving as chairman of Singapore Casket Company (Private) Limited.

Megan Quinn GAICD

Independent Non-Executive Director

Megan Quinn was appointed to the InvoCare board of directors on 1 October 2018.

Megan serves on the Audit, Risk & Compliance Committee, People, Culture & Remuneration Committee and Nomination Committee.

Megan is internationally regarded as a transformation, marketing, retail and business expert and is invited to speak and consult on service, innovation, creativity, strategy, building a global brand, business excellence and customer experience for companies, conferences and media outlets around the world. Named a global game changer and one of Australia's most powerful women in retail, Megan was a co-founder of the world's premier online luxury fashion retailer, NET-A-PORTER.

Megan is a director of listed companies City Chic Collective Limited and Reece Limited. Having previously served on the board and national committee of UNICEF Australia, she is a dedicated advocate for children's rights, and is a passionate ambassador of Fitted For Work.

Keith Skinner BCom, FCA, FAICD

Independent Non-Executive Director

Keith Skinner was appointed to the InvoCare board of directors on 1 September 2018.

Keith is the Chair of Audit, Risk & Compliance Committee and serves on the Investment Committee and Nomination Committee.

Keith has a strong record in business management, restructuring, finance, accounting, risk and governance. He commenced his career as an auditor with Deloitte Australia in 1974, later moving to the firm's Restructuring Services division, and was appointed a partner in 1986. He was a leading practitioner for company turnarounds for over a decade, before becoming chief operating officer of Deloitte Australia in 2001.

Since retirement in 2015, he has been a director of a number of public and private organisations (including Emeco Holdings Limited, North Sydney Local Health Board and not for profit organisation Lysicrates Foundation) and has consulted to a number of organisations on strategy execution, restructuring and operational improvement.

Robyn Stubbs BBus, MSc, GAICD

Independent Non-Executive Director

Robyn Stubbs was appointed to the InvoCare board of directors on 1 January 2017.

Robyn is the Chair of People, Culture & Remuneration Committee and serves on the Investment Committee and Nomination Committee.

She has more than 25 years' experience in senior marketing, sales, leasing and broader management roles with large and complex organisations, including Stockland, Ten Network, Fairfax Media, Lend Lease and Unilever.

Robyn is a director of listed Aventus Group comprising Aventus Holdings Limited and Aventus Capital Limited as responsible entity of the Aventus Retail Property Fund and Brickworks Limited. She is also a director of Aventus Investment Management Pty Ltd which oversees all unlisted funds management initiatives of the Aventus Group. Robyn stood down from the board of Lifeline Northern Beaches Incorporated at the end of 2019.

DIRECTORS' REPORT – OTHER STATUTORY MATTERS

Meetings of Directors

The number of meetings of the Company's board of directors (the Board) and each Board committee held during the financial year ended 31 December 2019, and the number of meetings attended by each director were as follows.

	Board		Audit, Risk & Compliance Committee		Investment Committee		People, Culture & Remuneration Committee		Nomination Committee	
Name	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Bart Vogel	14	14	4	4	-	-	5	5	1	1
Martin Earp	14	14	-	-	-	-	-	-	-	-
Richard Davis	14	14	-	-	7	7	5	5	1	1
Jackie McArthur	14	14	4	4	7	7	-	-	1	1
Megan Quinn	14	14	4	4	-	-	5	5	1	1
Keith Skinner	14	14	4	4	7	7	-	-	1	1
Robyn Stubbs	14	13	-	-	7	7	5	5	1	1

In addition to the formal meetings of directors there were numerous informal meetings of the non-executive directors during the year. Those meetings were concerned, for the most part, with succession planning, environmental, social and governance and customer strategy and site visits.

The composition of the Board and Board Committees is a minimum of three directors. Board Committees consist entirely of independent non-executive directors.

Company Secretary

Heidi Aldred BEcon, LLB

Heidi Aldred was appointed as Company Secretary on 15 March 2019. Heidi, a qualified lawyer, has over 20 years' experience in secretarial and general counsel roles in a wide variety of areas with both listed and unlisted companies. Her early career included working with legal firms Arnold Bloch Leibler and Allens Linklaters (formerly Arthur Robinson & Hedderwicks).

Phillip Friery

Phillip Friery was Company Secretary from January 2007 and retired on 15 March 2019.

Chief Financial Officer

Josée Lemoine BCom, FCPA

Josée Lemoine was appointed as Chief Financial Officer on 8 September 2016. Josée has had a finance career spanning several bluechip companies across multiple industries and geographies, with a clear focus on driving businesses to deliver commercial outcomes.

Prior to joining InvoCare, Josée was the Finance Director – Innovation & Business Performance at Telstra where she led the Finance transformation program as part of her broader portfolio. Furthermore, Josée has held senior leadership roles at Rio Tinto Alcan, Fairfax, Boral and Arnott's. She started her career at KPMG where she worked in Canada, New Zealand and Hungary. Josée has been a director of the Over Fifty Guardian Friendly Society Ltd since 2016.

Significant changes in the state of affairs

The significant changes in the state of affairs during the financial year were as follows:

- During March 2019, the Company undertook a fully underwritten institutional placement and a Share Purchase Plan which raised a total of $85,787,000 in capital net of costs. The net proceeds of the capital raised are applied to InvoCare's strategic growth objectives
- The Group acquired two regional businesses – Australian Heritage Funerals a highly successful business in the Toowoomba region, and Batemans Bay & Moruya District Funerals and Broulee Memorial Gardens located on the South Coast of NSW. Further details of these acquisitions are provided in Note 18: Business combinations

Other than the matters as stated above, there were no other significant changes in the state of affairs of InvoCare during the financial year.

Dividends

Details of dividends paid or declared by the Company during the financial year ended 31 December 2019 are set out in Note 4.

Subsequent events

Other than the Board declaring a final dividend of 23.5 cents per share, fully franked, there have been no other matter or circumstance arising since 31 December 2019 that has significantly affected InvoCare's operations, results or state of affairs, or may do so in future financial years.

Indemnification and insurance of officers

To the extent permitted by law, InvoCare has indemnified the directors and executives of InvoCare for liability, damages and expenses incurred, in their capacity as a director or an executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, InvoCare paid a premium in respect of an insurance policy to insure directors and officers of the company against a liability to the extent permitted by the *Corporations Act 2001*. The insurance policy specifically prohibits disclosure of the nature and liability covered and the amount of the premium paid.

Environmental regulation and performance

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

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

DIRECTORS' REPORT – OTHER STATUTORY MATTERS

Corporate governance

InvoCare and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. The Board adopts an continuance improvement approach and regularly reviews corporate governance and reporting practices. For 2019 the InvoCare Corporate Governance reports against the 3rd Edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Principles). InvoCare notes the publication of the 4th Edition ASX Principles and intends to report against the 4th Edition in its 2020 Corporate Governance Statement.

The 2019 InvoCare Corporate Governance Statement is available on the InvoCare website at: www.invocare.com.au/investor-relations/corporate-governance

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 25 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 25 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after the directors' report.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars (where rounding is applicable) in accordance with that instrument.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors on 26 February 2020.

Bart Vogel
Director

Martin Earp
Director

pwc

Auditor's Independence Declaration

As lead auditor for the audit of InvoCare Limited for the year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Michelle Chiang

MW Chiang
Partner
PricewaterhouseCoopers

Sydney
26 February 2020

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

FINANCIAL REPORT

This year's financial report is re-ordered and re-written to aid improvement in communication. Disclosures are split into five distinct groups to enable better understanding of how the Group has performed. Accounting policies and critical accounting judgements applied in the preparation of the financial statements are shown together with the related accounting balance and where the financial statement matter is disclosed.

This is the financial report of InvoCare Limited (the Company) and its subsidiaries (together referred to as InvoCare or the Group).

InvoCare Limited (ABN 42 096 437 393) is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 2, 40 Miller Street
North Sydney NSW 2060

A description of the nature of the Group's operations and its principal activities is included in the Directors' Report.

The financial report was authorised for issue by the Directors on 26 February 2020. The Directors have the power to amend and reissue the financial report.

Financial report content

CONSOLIDATED FINANCIAL STATEMENTS – CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Revenue from continuing operations	2	**500,348**	480,797
Finished goods, consumables and funeral disbursements		**(125,066)**	(124,392)
Employee benefits expense		**(166,204)**	(161,079)
Advertising and public relations expenses		**(16,810)**	(17,055)
Occupancy and facilities expenses		**(20,937)**	(31,258)
Motor vehicle expenses		**(8,480)**	(8,620)
Technology expenses		**(10,795)**	(9,424)
Other expenses		**(14,966)**	(17,239)
		137,090	111,730
Depreciation and amortisation expenses	5	**(36,986)**	(26,039)
Impairment loss on intangibles	12	**(24,404)**	-
Gain/(loss) on disposal of an associate		**52**	-
Finance costs	5	**(25,671)**	(21,036)
Interest income		**1,211**	1,354
Net gain/(loss) on undelivered prepaid contracts	10	**45,550**	(4,992)
Acquisition related costs		**(2,021)**	(3,602)
Net gain on disposal of non-current assets		**2,352**	329
Profit before income tax		**97,173**	57,744
Income tax expense	6	**(33,285)**	(16,384)
Net profit after income tax from continuing activities		**63,888**	41,360
Net profit after income tax for the year		**63,888**	41,360
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges, net of tax		**(1,661)**	162
Changes in foreign currency translation reserve, net of tax		**(198)**	3,363
Other comprehensive income for the year, net of tax		**(1,859)**	3,525
Total comprehensive income for the year, net of tax		**62,029**	44,885
Total comprehensive income for the year is attributable to:			
Equity holders of InvoCare Limited		**61,893**	44,749
Non-controlling interests		**136**	136
		62,029	44,885

		2019 cents	2018 cents
Earnings per share for profit attributable to the ordinary equity holders of InvoCare Limited			
Basic earnings per share	3	**55.8**	37.8
Diluted earnings per share	3	**54.9**	37.3

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED FINANCIAL STATEMENTS – CONSOLIDATED BALANCE SHEET

As at 31 December 2019

		Notes	2019 $'000	2018 $'000
Current assets	Cash and cash equivalents	7	**19,560**	14,776
	Trade receivables	8	**40,679**	33,445
	Other receivables		**9,983**	9,253
	Inventories		**51,566**	45,754
	Prepaid contract funds under management	10	**57,552**	45,986
	Assets held for sale		**5,842**	3,936
	Deferred selling costs	9	**4,480**	3,101
	Total current assets		**189,662**	156,251
Non-current assets	Trade receivables	8	**31,477**	12,584
	Other receivables		**655**	453
	Other financial assets		**4**	4
	Property, plant and equipment	11	**448,745**	425,578
	Right of use asset	11	**144,001**	-
	Prepaid contract funds under management	10	**561,837**	517,601
	Intangibles	12	**188,934**	204,799
	Deferred selling costs	9	**35,448**	39,049
	Total non-current assets		**1,411,101**	1,200,068
	Total assets		**1,600,763**	1,356,319
Current liabilities	Trade and other payables		**60,904**	61,110
	Lease liabilities	11	**12,934**	-
	Derivative financial instruments	13	**735**	101
	Current tax liabilities		**813**	1,486
	Prepaid contract liabilities	10	**48,885**	41,428
	Deferred revenue	9	**34,913**	23,345
	Provision for employee entitlements		**14,864**	14,356
	Total current liabilities		**174,048**	141,826
Non-current liabilities	Trade and other payables		**800**	-
	Borrowings	13	**357,189**	408,245
	Lease liabilities	11	**149,967**	-
	Derivative financial instruments	13	**3,422**	1,694
	Deferred tax liabilities	6	**34,826**	24,314
	Prepaid contract liabilities	10	**476,498**	468,616
	Deferred revenue	9	**104,387**	115,409
	Provision for employee benefits		**2,647**	4,918
	Total non-current liabilities		**1,129,736**	1,023,196
	Total liabilities		**1,303,784**	1,165,022
	Net assets		**296,979**	191,297
Equity	Contributed equity	14	**219,826**	124,140
	Reserves		**7,728**	7,778
	Retained profits		**68,169**	58,138
	Parent entity interests		**295,723**	190,056
	Non-controlling interests		**1,256**	1,241
	Total equity		**296,979**	191,297

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED FINANCIAL STATEMENTS – CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Attributable to equity holders of InvoCare Limited						
		Contri-buted equity $'000	Share-based payment reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Retained profits $'000	Non-controlling interests $'000	Total equity $'000
2019	**Balance at 1 January 2019**	**124,140**	**246**	**(1,193)**	**8,725**	**58,138**	**1,241**	**191,297**
	Change in accounting policy	-	-	-	-	(11,842)	-	(11,842)
	Restated balance at the beginning of the year	124,140	246	(1,193)	8,725	46,296	1,241	179,455
	Total comprehensive income for the year	-	-	(1,661)	(198)	63,752	136	62,029
	Transactions with owners in their capacity as owners:							
	Dividends paid (Note 4)	-	-	-	-	(32,742)	(121)	(32,863)
	Reclassification of equity settled share-based payments	-	2,353	-	-	-	-	2,353
	Employee share plan shares vested during the year	450	(192)	-	-	-	-	258
	Issue of ordinary shares as part of dividend reinvestment plan	9,137	-	-	-	(9,137)	-	-
	Issue of ordinary shares	85,787	-	-	-	-	-	85,787
	Employee shares – value of services	312	(352)	-	-	-	-	(40)
	Balance at 31 December 2019	**219,826**	**2,055**	**(2,854)**	**8,527**	**68,169**	**1,256**	**296,979**
2018	**Balance at 1 January 2018**	136,344	1,039	(1,355)	5,362	139,843	1,184	282,417
	Change in accounting policy	-	-	-	-	(73,411)	-	(73,411)
	Restated balance at the beginning of the year	136,344	1,039	(1,355)	5,362	66,432	1,184	209,006
	Total comprehensive income for the year	-	-	162	3,363	41,224	136	44,885
	Transactions with owners in their capacity as owners:							
	Dividends paid (Note 4)	-	-	-	-	(46,787)	(79)	(46,866)
	Employee share plan shares vested during the year	951	(711)	-		-	-	240
	Issue of ordinary shares as part of dividend reinvestment plan	2,731	-	-	-	(2,731)	-	-
	Acquisition of shares by the InvoCare Deferred Share Plan Trust	(16,196)	-	-	-	-	-	(16,196)
	Transfer of shares from the deferred plan to the InvoCare Exempt Share Plan Trust	310	-	-	-	-	-	310
	Employee shares – value of services	-	(82)	-	-	-	-	(82)
	Balance at 31 December 2018	124,140	246	(1,193)	8,725	58,138	1,241	191,297

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED FINANCIAL STATEMENTS – CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

		Notes	2019 $'000	2018 $'000
Cash flows from operating activities	Receipts from customers (including GST)		**488,008**	495,284
	Payments to suppliers and employees (including GST)		**(393,541)**	(412,358)
	Other revenue		**6,037**	7,370
			100,504	90,296
	Interest received		**388**	64
	Finance costs		**(16,431)**	(14,501)
	Income tax paid		**(20,631)**	(27,551)
	Net cash flows from operating activities	7	**63,830**	48,308
Cash flows from investing activities	Proceeds from sale of property, plant and equipment		**5,565**	1,196
	Purchase of subsidiaries and other businesses including acquisition costs, net of cash acquired		**(15,187)**	(73,000)
	Proceeds from sale of subsidiaries and other businesses, net of restructuring costs		**985**	-
	Purchase of property, plant and equipment		**(65,289)**	(84,120)
	Payments to funds under management for pre-paid contract sales	10	**(24,976)**	(34,639)
	Receipts from funds under management for pre-paid contracts performed	10	**40,842**	46,006
	Net cash outflow from investing activities		**(58,060)**	(144,557)
Cash flows from financing activities	Share capital issue		**85,787**	-
	Payment for shares acquired by InvoCare Deferred Employee Share Plan trust		**-**	(16,196)
	Proceeds from share option vested and exercised		**258**	-
	Proceeds from borrowings		**47,397**	444,752
	Repayment of borrowings		**(100,500)**	(286,509)
	Proceeds from lease arrangements		**13,598**	-
	Principal elements of lease payments		**(14,733)**	-
	Dividends paid to InvoCare Limited equity holders		**(32,742)**	(46,787)
	Dividends paid to non-controlling interests in subsidiaries		**(121)**	(79)
	Net cash flows from financing activities		**(1,056)**	95,181
	Net increase/(decrease) in cash and cash equivalents		**4,714**	(1,068)
	Cash and cash equivalents at the beginning of the year		**14,776**	15,531
	Effects of exchange rate changes on cash and cash equivalents		**70**	313
	Cash and cash equivalents at the end of the year	7	**19,560**	14,776

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONSOLIDATED FINANCIAL STATEMENTS – BASIS OF PREPARATION

This consolidated financial report is a general purpose financial report which:

- Has been prepared in accordance with Australian Accounting Standards (AASBs) and Interpretations adopted by the Australian Accounting Standards Board and the Corporations Act 2001
- Complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board
- Is presented in Australian dollars ($). At balance sheet date, all values have been rounded off to the nearest thousand dollars unless otherwise indicated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191
- Is prepared under the historical cost basis except for the following assets and liabilities, which are stated at their fair value: derivative financial instruments; fair value through profit or loss funds under management; and liabilities for cash settled share-based compensation plans. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Refer to the specific accounting policies within the notes to the financial statements for the basis of valuation of assets and liabilities measured at fair value

Significant accounting policies have been:

- Included in the relevant notes to which the policies relate, while other significant accounting policies are discussed in Note 26 Other accounting policies
- Consistently applied to all financial years presented in the consolidated financial statements and by all entities in the Group, except as explained in Note 26 Other accounting policies – New and revised accounting standards and interpretations not yet mandatory or early adopted

The preparation of a financial report that complies with AASBs requires management to make judgements, estimates and assumptions.

This can affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The significant accounting policies highlight information about accounting judgements in applying accounting policies that have the most significant effects on reported amounts and further information about estimated uncertainties that have a significant risk of resulting in material adjustments within the next financial year.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed within the notes following the financial information of those transactions or activities.

The Group presents assets and liabilities in the consolidated balance sheet as current or non-current.

- Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or use in, the course of the Group's operating cycle (that is 12 months). All other assets are classified as non-current
- Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Non-IFRS information

Some of the financial data in the notes to the financial statements as listed below are not disclosures in accordance with the current AASBs' requirements:

- EBITDA (earnings before interests, tax, depreciation and amortisation) and EBIT (earnings before interests and tax) in Note 1: Operating segments
- Operating and underlying EBITDA and EBIT in key performance metrics section
- Voluntary tax transparency code disclosure in Note 6: Income tax;
- Cash conversion ratio in Note 7: Cash flow information

However, all financial data is based on the information disclosed in the audited financial statements and notes to the financial statements of InvoCare and follow the recognition requirement of AASBs.

Operating earnings before interest, tax, depreciation and amortisation (Operating EBITDA) is a key measure used to assess the Group's performance. This section of the Financial Report focuses on disclosure that enhances a user's understanding of Operating EBITDA.

Operating segment provides a breakdown of revenue and profit by the operational activity. The key line items of the consolidated statement of comprehensive income along with their components provide detail behind the reported balances. Group performance will also impact the earnings per ordinary share capital and dividend payout.

Finally, the cash flows reflect the core results of the Group's capital management strategy and therefore the disclosure on these items has been included in this section.

NOTE 1. Operating segments

A. Identification of reportable segments

The Group is organised into three reportable segments:

- Australia
- Singapore
- New Zealand

The Group's operation in Hong Kong has been included under "Other Operations" in the tables over the page due to its relatively small size. These reportable segments are based on the internal reports that are reviewed and used by the Managing Director and Chief Executive Officer (who is identified as the Chief Operating Decision Maker (CODM)) in assessing performance and in determining the allocation of resources. There is no aggregation of reportable segments.

The reportable segments are identified by management based on the countries in which the product is sold or service is provided. Discrete financial information about each of these operating segments is reported to CODM and the Board of Directors regularly.

The CODM reviews operating earnings before interest, tax, depreciation and amortisation (Operating EBITDA) and operating earnings before interest and tax (Operating EBIT).

The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – KEY PERFORMANCE METRICS

B. Reportable segments information

		Australia $'000	Singapore $'000	New Zealand $'000	Other $'000	Total $'000
2019	Revenue from external customers	413,403	20,823	56,033	-	490,259
	Other revenue (excluding interest income)	9,176	400	513	-	10,089
	Operating expenses	(308,253)	(11,306)	(43,657)	(42)	(363,258)
		114,326	9,917	12,889	(42)	137,090
	Adjustment to revenue - prepaid redemptions*	3,855	-	-	-	3,855
	Adjustment to other revenue - prepaid redemptions*	(4,538)	-	-	-	(4,538)
	Adjustment to operating expenses - prepaid redemptions*	8,026	-	-	-	8,026
	Operating EBITDA	**121,669**	**9,917**	**12,889**	**(42)**	**144,433**
	Depreciation and amortisation	(30,775)	(1,201)	(4,997)	-	(36,973)
	Business acquisition costs	(1,984)	-	(37)	-	(2,021)
	Operating EBIT	**88,910**	**8,716**	**7,855**	**(42)**	**105,439**
	Finance costs	(19,561)	(1,309)	(3,552)	(2)	(24,424)
	Interest income	1,301	(43)	(47)	-	1,211
	Non-operating activities (including prepaid contracts funds under management)	40,739	(20)	(1,368)	-	39,351
	Impairment loss on intangibles	-	-	(24,404)	-	(24,404)
	Income tax expense	(31,638)	(1,126)	(521)	-	(33,285)
	Non-controlling interest	(136)	-	-	-	(136)
	Net profit after income tax	**79,615**	**6,218**	**(22,037)**	**(44)**	**63,752**
	Total goodwill	**119,573**	**15,514**	**47,382**	**-**	**182,469**
	Total assets	**1,427,388**	**47,131**	**126,105**	**139**	**1,600,763**
	Total liabilities	**1,156,812**	**41,774**	**105,131**	**67**	**1,303,784**
2018	Revenue from external customers	406,932	16,459	49,642	-	473,033
	Other revenue (excluding interest income)	7,057	425	282	-	7,764
	Operating expenses	(318,621)	(10,158)	(40,247)	(41)	(369,067)
		95,368	6,726	9,677	(41)	111,730
	Adjustment to revenue - prepaid redemptions*	4,304	-	-	-	4,304
	Adjustment to other revenue - prepaid redemptions*	(4,903)	-	-	-	(4,903)
	Adjustment to operating expenses - prepaid redemptions*	7,867	-	-	-	7,867
	Operating EBITDA	102,636	6,726	9,677	(41)	118,998
	Depreciation and amortisation	(21,895)	(944)	(3,191)	-	(26,030)
	Business acquisition costs	(2,934)	-	(668)	-	(3,602)
	Operating EBIT	77,807	5,782	5,818	(41)	89,366
	Finance costs	(16,083)	(1,061)	(2,507)	1	(19,650)
	Interest income	1,258	96	-	-	1,354
	Non-operating activities (including prepaid contracts funds under management)	(11,681)	-	(1,645)	-	(13,326)
	Income tax expense	(15,121)	(646)	(618)	1	(16,384)
	Non-controlling interest	(136)	-	-	-	(136)
	Net profit after income tax	36,044	4,171	1,048	(39)	41,224
	Total goodwill	110,813	15,192	71,536	-	197,541
	Total assets	1,167,370	60,567	128,229	153	1,356,319
	Total liabilities	1,044,608	40,300	80,075	39	1,165,022

** Adjustment to reclassify the non-operating impacts of performing prepaid funeral, burial and cremation services to net gain/loss on prepaid contracts.*

C. Accounting policy for segment reporting

Operating EBITDA is reconciled to profit after tax as disclosed on the consolidated statement of comprehensive income.

Segment revenue, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment, right of use assets and goodwill and other intangible assets, net of related provisions. Segment liabilities consist primarily of trade and other creditors, lease liabilities and employee benefits and, in the case of Singapore, include an allocation of the long-term borrowings raised in Australia to fund the investment in Singapore. New Zealand has long-term borrowings which are arranged in New Zealand but with the support of Australia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – KEY PERFORMANCE METRICS

NOTE 2. Revenue

A. Disaggregation of revenue from contracts with customers

The tables below provide detailed disaggregation of revenue derived by the Group.

		Australia $'000	Singapore $'000	New Zealand $'000	Total $'000
2019	Funeral services	**298,868**	**20,823**	**53,576**	**373,267**
	Memorial Parks	**117,973**	**-**	**2,528**	**120,501**
	Pet cremations	**816**	**-**	**-**	**816**
		417,657	**20,823**	**56,104**	**494,584**
	Rent	**307**	**65**	**13**	**385**
	Sundry revenue	**4,616**	**335**	**428**	**5,379**
	Total revenue from continuing operations	**422,580**	**21,223**	**56,545**	**500,348**
2018	Funeral services	292,979	16,459	47,234	356,672
	Memorial Parks	118,454	-	2,528	120,982
	Pet cremations	49	-	-	49
		411,482	16,459	49,762	477,703
	Rent	369	47	21	437
	Sundry revenue	2,122	378	157	2,657
	Total revenue from continuing operations	413,973	16,884	49,940	480,797

B. Critical accounting judgements, estimates and assumptions

I. Significant financing

The Group receives payment from customers for prepaid funeral, burial and cremation services prior to the transfer of the promised goods or services to the customer. As the period between receipt of the consideration and transfer of the goods or services can exceed one year, the Group adjusts deferred revenue using a discount rate. The Group determines the discount rate that best reflects the at-need funerals price the customers would have paid (that is the cash selling price as if the customer had paid the consideration at the time when the services are performed or the goods delivered).

II. Timing of recognition of deferred plaque and miscellaneous merchandise revenue

Prepaid cemetery/crematorium plaque and miscellaneous merchandise sales are currently brought to account over an assumed 15 year period. Unredeemed merchandise sales (included within deferred revenue on the balance sheet) total $58,617,000 at 31 December 2019 (2018: $58,773,000).

The 15 year period is based on a periodically updated actuarial assessment of the average period between a customer entering into a prepaid funeral plan and the contract becoming at-need. The actual history of a prepaid cemetery/crematorium contract may differ from the profile of a prepaid funeral plan; however, in the absence of more specific data being available, the funeral data has been applied.

The average 15 year period is an assumption only and therefore subject to uncertainty. It is possible that there will remain unperformed contracts at the end of the 15 year amortisation period, yet all revenue will have been recognised. Offsetting this is the likelihood that contracts performed during the 15 year period will have unrecognised revenue.

Actual redemptions information was being collated for a sample of sites in order to determine a more accurate historical pattern of cemetery/crematorium prepaid sale redemptions. The information collated suggests there is no material misstatement of revenue using the assumed 15 years period. The impact of recognising revenue over five years less (or five years more) than 15 years would be to increase annual revenue by approximately $3,300,000 (2018: $3,600,000) or decrease by $1,700,000 (2018: $1,800,000).

C. Accounting policy – revenue recognition

The Group adopted AASB 15 Revenue from Contracts with Customers (AASB 15) from 1 January 2018. Full details of the impact of adoption of AASB 15 can be found in the 2018 Annual Report.

The Group derives its revenue from the transfer of goods and services on delivery of the underlying good or service.

The Group predominately generates revenue through the following streams:

I. Funeral services, including prepaid funeral, burial and crematorium services

II. Cemetery and crematorium memorial products ('memorial products')

Each of the above goods and services delivered or to be delivered to the customers are considered separate performance obligations even though for some situations they may be governed by a single legal contract with the customer.

Revenue recognition for each of the above revenue streams are as follows:

I. Funeral services, including prepaid funeral, burial and crematorium services

The Group's performance obligations under funeral services contracts are:

- **At-need funeral services** – Revenue is recognised when the funeral, burial and cremation, other services are performed or the goods supplied.
- **Prepaid (Pre-need) funeral services** – The Group enters into prepaid contracts to provide funeral, burial and cremation services or other services in the future. For these contracts, the period between payment by the customer and transfer of the promised goods or services to the customer can exceed one year.

  The funds received are placed in Trust and are not recognised as revenue until the service is performed. As a result, the Group adjusts the deferred revenue and prepaid contract liabilities using a discount rate that results in revenue being recognised that approximates the cash selling price the customer would have paid if the consideration was paid at the same time as the services are provided.

  On delivery of a prepaid funeral service contract, the Group recognises the financing component as a component of revenue.

II. Cemetery and crematorium memorial products ('memorial products')

The Group's deliverables under memorial contracts are:

- **Interment right** – An interment right is the right to be committed in a designated space in a cemetery in perpetuity. The specific site is allocated at the time of signing the contract. Revenue is recognised when control of the interment right and associated memorial passes to the customer.

  Pre-2018 memorial product contracts
  For memorial product contracts entered into with customers prior to 1 January 2018, the customer gains control of the interment right on full and final settlement.

  Post-2018 memorial product contracts
  For contracts entered into from 1 January 2018, the customer gains control of the interment right at contract inception, thereby allowing revenue to be recognised on delivery.

- **Headstone/monument/gardens** – In a memorial products contract, a customer purchases a memorial, such as headstone/heritage garden/monument, to be installed on the interment site. The memorial may be onsite at the time of purchase or may be delivered at a future time. Typically, there is a considerable time lag between a contract being signed and the delivery of the memorial. These items are tracked on a contract by contract basis and recognised as revenue upon delivery of products.
- **Plaques** (and other associated smaller merchandise) – These products are delivered to the customer on an 'at-need' basis (generally when the beneficiary has passed away). The revenue recognised for plaques and other associated smaller merchandise such as ash containers, vases and photos, where actual deliveries are not individually tracked, are managed on a portfolio basis given the small value of the individual items. The revenue is recognised over a 15 year period on a straight-line basis. The 15 year period represents an actuarial estimate of when the contracts will be delivered.

Billing and collection of memorial products contracts can be immediate and in full upon contract signing. However, most memorial products contracts are paid via instalments over a period of up to five years (although the payment periods do vary). The interment right, memorial products and plaques are each considered to be distinct performance obligations under AASB 15 as a customer can use the site without a memorial and there is not a transformative or integrated relationship between the products. The transfer of control of these distinct performance obligations determines when revenue should be recognised.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, allowances, duties and taxes paid.

Revenue relating to undelivered memorials and merchandise are deferred until delivered or made ready for use.

Minor items such as plaques, ash containers and vases where actual deliveries are not individually tracked are released to revenue over 15 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – KEY PERFORMANCE METRICS

NOTE 3. Earnings per share

A. Reported period value

	2019 cents	2018 cents
Basic earnings per share	**55.8**	37.8
Diluted earnings per share	**54.9**	37.3
Operating earnings per share	**51.7**	45.2

InvoCare determines the dividends to be paid for any financial periods from Operating earnings after tax. Operating earnings is derived from basic earnings after excluding earnings generated from all non-operating activities relating to prepaid contracts. This is a financial measure which is not prescribed by Australian equivalents to International Financial Reporting Standards (AIFRS) and represents the earnings under AIFRS adjusted for specific items as per the table below from the statement of comprehensive income.

B. Reconciliation of earnings used in calculating earnings per share

	2019 $'000	2018 $'000
Net profit after income tax	**63,888**	41,360
Less: Non-controlling interests	**(136)**	(136)
Net profit after income tax attributable to InvoCare Limited's equity holders for calculating statutory basic and diluted earnings per share	**63,752**	41,224
Less: Non-operating items		
Net (gain)/loss on prepaid contracts before income tax	**(36,947)**	13,655
Impairment loss on intangibles	**24,404**	-
Asset sales gain before income tax	**(2,404)**	(329)
Income tax on non-operating items	**10,261**	(5,190)
Operating earnings after income tax for calculating operating earnings per share	**59,066**	49,360

C. Weighted average number of shares used in calculating basic and diluted earnings per share

	2019 Number '000	2018 Number '000
Weighted average number of shares used in calculating basic earnings per share	**114,189**	108,982
Adjustments for calculation of diluted earnings per share:		
Share options and rights*	**1,994**	1,537
Weighted average number of shares used in calculating diluted earnings per share	**116,183**	110,519

The weighted average number of ordinary shares or dilutive potential ordinary shares is calculated by taking into account the period from the issue date of the shares to the reporting date unless otherwise stated below.

* InvoCare operates share-based payments arrangements (in the form of a long term incentive plan) where eligible employees may receive options and performance rights. One option or performance right will convert to one InvoCare ordinary share subject to vesting conditions being met. These share-based payments arrangements are granted to employees free of costs. For performance rights, no consideration is paid on conversion to InvoCare ordinary shares upon vesting and exercise. For options, strike price is payable on conversion to InvoCare ordinary shares upon vesting and exercise. These arrangements have a dilutive effect to the basic earnings per share.

D. Accounting policy for earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of InvoCare Limited by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the financial year and excluding treasury shares.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued at no consideration received in relation to dilutive potential ordinary shares.

NOTE 4. Dividends

A. Dividends paid

	Amount per share cents	Total amount $'000	Tax rate for franking credit %	Percen-tage franked %
2019				
Dividends on InvoCare Limited's ordinary shares				
2019 interim dividend	**17.5**	**20,428**	**30%**	**100%**
2018 final dividend	**19.5**	**21,451**	**30%**	**100%**
		41,879		
2018				
2018 interim dividend	17.5	19,261	30%	100%
2017 final dividend	27.5	30,257	30%	100%
		49,518		

B. Dividends declared and not recognised at year end

On 26 February 2020, the directors declared a final dividend of 23.5 cents per share, fully franked, to be paid on 17 April 2020. As this occurred after the reporting date, the dividends declared have not been recognised in these financial statements and will be recognised in future financial statements.

The Company has a Dividend Reinvestment Plan (DRP) that allows equity holders to elect to receive their dividend entitlement in the form of the Company's ordinary shares. The price of DRP shares is the average market price, less a discount if any (determined by the directors) calculated over the pricing period (which is at least five trading days) as determined by the directors for each dividend payment date.

The Company's DRP operates by issuing new shares on market at a 2.0% discount. Election notices for participation in the DRP in relation to this final dividend must have been received by 6 March 2020.

C. Franking credits

	2019 $'000	2018 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	**39,256**	31,063

Franking credits available for subsequent financial years include:

- Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- Any franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

D. Accounting policy for dividends

Dividends are recognised when declared during the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – KEY PERFORMANCE METRICS

NOTE 5. Expenses

Profit before income tax includes the following specific expenses:

		2019 $'000	2018 $'000
A. Finance costs	Interest paid and payable	**14,882**	13,735
	Interest expense: customer advance payments	**4,114**	4,844
	Interest expense on lease liabilities	**4,760**	-
	Other finance costs	**1,915**	2,457
		25,671	21,036
	Interest expense on prepaid contracts	**20,331**	18,573
B. Depreciation, amortisation and impairment of non-current assets	**Depreciation**		
	Buildings	**4,646**	5,731
	Property, plant and equipment	**16,982**	17,267
	Right of use assets	**11,406**	-
	Total depreciation	**33,034**	22,998
	Amortisation of non-current assets		
	Cemetery land	**384**	387
	Leasehold land and buildings	**170**	176
	Leasehold improvements	**1,962**	1,349
	Brand names	**1,436**	1,129
	Total amortisation	**3,952**	3,041
	Total depreciation and amortisation	**36,986**	26,039
	Impairment of non-current assets		
	Impairment loss on intangibles	24,404	-
	Total depreciation, amortisation and impairment	**61,390**	26,039
C. Impairment loss – financial assets	Trade receivables	**1,016**	824
D. Leases expense	Minimum lease payments for operating leases	**-**	12,841
	Expense relating to short term leases	**569**	-
	Expense relating to leases of low value assets not included in short term leases	**145**	-
	Expense relating to variable lease payments not included in lease liabilities	**-**	-
		714	12,841
E. Employee benefits expense	Defined contribution superannuation expense	**10,750**	10,631
	Share-based payments expense	**(206)**	(19)

F. Accounting policies

The accounting policies on the above specified expenses are located in the notes where the assets or liabilities are disclosed other than defined contribution superannuation expense disclosed below.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

NOTE 6. Income tax

		2019 $'000	2018 $'000
A. Income tax expense	Current tax	**19,816**	18,905
	Deferred tax	**14,326**	(1,335)
	Under/(over) provided in prior years	**(857)**	(1,186)
	Income tax expense	**33,285**	16,384
B. Reconciliation of income tax expense to prima facie tax payable	Profit before income tax	**97,173**	57,744
	Prima facie tax at 30% (2018: 30%) on profit before income tax	**29,152**	17,323
	Tax effect of amounts which are not deductible/(taxable) in calculation of taxable income:		
	Effect of foreign tax rate differences	**(685)**	(748)
	Acquisition costs	**203**	602
	Capital gains not subject to tax as offset against capital losses	**(1,284)**	-
	Impairment loss on intangibles	**6,833**	-
	Other items (net)	**(77)**	393
		34,142	17,570
	Under/(over) provision in prior years	**(857)**	(1,186)
	Income tax expense attributable to continuing operations	**33,285**	16,384
C. Tax expense relating to items of other comprehensive income	Cash flow hedges	**-**	62
D. Deferred tax liability	**Amounts recognised in profit and loss:**		
The deferred tax liability balances comprised temporary differences attributable to:	Cemetery land	**26,626**	26,714
	Property, plant and equipment	**9,013**	7,179
	Deferred selling costs	**12,115**	12,645
	Prepayments and other	**(947)**	310
	Brand names	**1,900**	2,104
	Prepaid contracts	**28,202**	6,159
	Provisions	**(5,444)**	(5,109)
	Receivables	**(618)**	(1,291)
	Accruals and other	**(2,044)**	(1,780)
	Deferred revenue	**(26,302)**	(22,088)
	Leased assets	**(5,628)**	-
	Capital losses recognised	**(826)**	-
	Amounts recognised directly in equity:		
	Cash flow hedge reserve	**(1,221)**	(529)
		34,826	24,314
	The net movement in the deferred tax liability is as follows:		
	Balance at the beginning of the year	**24,314**	55,427
	Net charge to statement of comprehensive income – current period	**14,326**	(1,335)
	Net charge/(credit) to statement of comprehensive income – prior periods	**(727)**	1,376
	Amounts recognised directly in equity	**692**	(62)
	Amounts recognised directly in equity-transition to AASB 15	**-**	(31,462)
	Amounts recognised directly in equity-transition to AASB 16	**(5,030)**	-
	Effect of movements in exchange rates	**1,251**	370
	Balance at the end of the year	**34,826**	24,314

E. Tax losses

The Australian Group has capital losses of $2,750,000 (2018: $590,000) (gross) available to offset capital gains in future years, which has been recognised as a deferred tax asset at 31 December 2019.

F. Change in method of tax effect accounting for the adoption of AASB 15 Revenue from Contracts with Customers

The Group changed the method in which it determines the tax base of its deferred revenue balance for purposes of calculating deferred tax assets. This change impacted the recognition of deferred tax assets on the Group's transition adjustment to AASB 15 as of 1 January 2018 for the Cemetery and Crematorium memorial products revenue stream only.

The details of the adjustments are:

- **i.** The Group considers the new method better attributes the tax impact of those transactions, where revenue was deferred on adoption of AASB 15, to the period when the revenue will be recognised. That is, a deferred tax asset has been recognised for the entire amount of revenue that has been taxed but will be recognised in the future for financial reporting purposes. The change of $16,612,000 has been accounted for retrospectively at the date of transition to AASB 15, being 1 January 2018
- **ii.** Upon reviewing the implications of the above change in accounting method, the Group identified an understatement of deferred revenue and trade receivables as at 31 December 2018 of $14,320,000. This understatement relates to cash received from memorial product customers where control of the interment right and associated memorial had not passed to the customer at 31 December 2018. As a result, the Group has corrected trade receivables and deferred revenue by $14,320,000 as at 31 December 2018

There is no change to reported profit or cashflows for the year ended 31 December 2018 from these adjustments.

The line items impacted by the changes as at 1 January 2018 and 31 December 2018 are disclosed in the table below.

		1 January 2018			31 December 2018		
		As reported $'000	Adj (i) $'000	Restated $'000	As reported $'000	Adj (i) & (ii) $'000	Restated $'000
Assets	Trade receivables	18,866	-	18,866	31,709	14,320	46,029
Liabilities	Deferred revenue	129,454	-	129,454	124,434	14,320	138,754
	Deferred tax liability	40,577	(16,612)	23,965	40,926	(16,612)	24,314
Equity	Retained profits	49,820	16,612	66,432	41,526	16,612	58,138

G. Voluntary tax transparency code disclosure

The Tax Transparency Code (TTC) is a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information. The TTC was developed by the Board of Taxation and endorsed by the Government in the Federal Budget 2016–17.

Adoption of the TTC is voluntary and intended to complement Australia's existing tax transparency measures. The TTC is designed to encourage greater transparency within the corporate sector, particularly by multinationals, and to enhance the community's understanding of the corporate sector's compliance with Australia's tax laws.

Companies (including entities treated as companies for Australian tax purposes) that are medium or large businesses are encouraged to adopt the TTC. For the purpose of TTC, InvoCare is classified as a medium business and elected to adopt TTC.

Income tax expense on reported profit was $34,142,000 (2018: $17,570,000), representing an effective rate of 35.1% (2018: 30.4%). An analysis of tax paid, based on tax residency status, for Australia and the Group is set out below.

	Australia		Group	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Profit before income tax	**113,501**	51,319	**97,173**	57,744
Tax at nominal rate in relevant country	**34,050**	15,396	**28,467**	16,575
Increase/(decrease) due to non-temporary differences				
Non-deductible acquisition costs	**170**	499	**203**	602
Capital gains offset against capital losses or not subject to tax	**(946)**	-	**(1,284)**	-
Impairment loss on intangibles	**-**	-	**6,833**	-
Foreign exempt dividends	**(1,026)**	-	**-**	-
Other items	**68**	79	**26**	140
Increase/(decrease) due to temporary differences				
Unrealised prepaid contract funds under management gains and losses	**(12,128)**	2,923	**(12,128)**	2,923
Other items	**(2,802)**	(1,949)	**(2,301)**	(1,335)
Current income tax paid or payable	**17,386**	16,948	**19,816**	18,905
Current income tax paid rate*	**15.3%**	33.0%	**20.4%**	32.7%
Current income tax expense	**32,017**	15,973	**34,142**	17,570
Effective tax rate	**28.2%**	31.1%	**35.1%**	30.4%
Prior period tax adjustments	**(771)**	(1,171)	**(857)**	(1,186)

* *Calculated as the total amount of income tax paid divided by the profit before income tax.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – KEY PERFORMANCE METRICS

Governance of tax planning for the Group has been delegated by the Board to the Audit, Risk & Compliance Committee (Committee), which pursues a non-aggressive tax planning strategy which is principled, transparent and sustainable in the long term. It oversees the Group's tax affairs in a proactive manner that seeks to maximise shareholder value, while operating in accordance with the law, and not participating in any aggressive tax planning activities. The Committee receives a regular report on the Group's tax compliance. Tax planning initiatives are not implemented until they receive approval from the Committee. Tax risks and opportunities are rated according to their potential impact which determines whether management or the Committee has the delegated authority to resolve the matter.

During 2019, capital losses were realised on the sale of a digital business and land. These capital losses were partially offset against capital gains realised during the year on call options and the sale of buildings. The benefit of the remaining net capital loss of $2,750,000 (gross) has been recognised as a deferred tax asset.

The Group has a limited number of international related party arrangements in place. They are:

- An Australian subsidiary receives dividends from Singapore Casket Company, which is resident in Singapore
- The New Zealand group is charged management fees, based on time spent, for management, administration, accounting and other services provided by the Australian operation
- Loans from the Australian Group to subsidiaries outside Australia are made occasionally under documented loan agreements

In addition to income tax paid, the Australian group paid the following types of taxes and fees during 2019:

- Payroll tax of $6,608,000 (2018: $6,647,000)
- Fringe benefits tax of $1,663,000 (2018: $2,134,000)
- Land tax on owned buildings of $5,246,000 (2018: $4,441,000), to various state governments
- Council and water rates paid to various authorities of $2,291,000 (2018: $2,153,000)

H. Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously. Deferred tax balances are presented as non-current assets/liabilities on the balance sheet.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised in equity.

NOTE 7. Cash flow information

A. Reconciliation of cash flows from operations with net profit after income tax

	2019 $'000	2018 $'000
Net profit from ordinary activities after income tax	63,752	41,224
Adjustments for non-cash items in profit from ordinary activities		
Depreciation and amortisation	36,986	26,039
Impairment loss on intangibles	24,404	-
Share-based payments expense	(206)	(19)
Loan establishment costs	679	962
Net (gain)/loss on disposal of property, plant and equipment	(2,352)	(329)
Unrealised loss/(gain) on prepaid contracts	(45,550)	4,992
Other prepaid contract movements	13,909	14,449
Interest expense: customer advance payments	4,114	4,844
Other non-cash deferred revenue/deferred selling costs movements	(19,251)	(24,049)
Business acquisition costs classified in investing activities	2,021	3,611
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and other receivables	(20,210)	(15,910)
(Increase)/decrease in inventories	(5,639)	(4,954)
(Increase)/decrease in deferred selling expenses	2,222	1,727
Increase/(decrease) in trade and other payables	(1,315)	11,293
Increase/(decrease) in deferred revenue	538	(5,015)
Increase/(decrease) in income taxes payable	(673)	(10,551)
Increase/(decrease) in deferred taxes	8,847	(493)
Increase/(decrease) in provisions	1,554	487
Net cash flows from operating activities	63,830	48,308

B. Non-cash investing and financing activities

Non-cash investing and financing activities for the current and prior financial years are:

- Acquisition of right of use assets through the changes in accounting treatments in accordance with AASB 16 Leases (refer to Note 11.B for further details)
- Dividends satisfied by the issue of shares under the dividend reinvestment plan of $9,137,000 (2018: $2,731,000)
- Performance rights and shares issued to employees under the Employee Share Trusts Plan and employee share scheme for no cash consideration

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – KEY PERFORMANCE METRICS

C. Net debt reconciliation

The tables set out below provide an analysis of net debt and the movements in net debt for the current and last financial year.

		Cash and cash equivalents $'000	Borrowings $'000	Lease liabilities $'000	Net debts $'000
2019	Net debt as at 1 January 2019	**14,776**	**(408,245)**	**-**	**(393,469)**
	Recognised due to adoption of AASB 16	**-**	**-**	**(135,629)**	**(135,629)**
	Cash flows - proceeds	**4,714**	**(47,397)**	**-**	**(42,683)**
	Cash flows - repayments	**-**	**100,500**	**14,733**	**115,233**
	Additions / variations	**-**	**-**	**(37,245)**	**(37,245)**
	Interest expense on lease liabilities	**-**	**-**	**(4,760)**	**(4,760)**
	Foreign exchange adjustments	**70**	**(2,047)**	**-**	**(1,977)**
	Net debt as at 31 December 2019	**19,560**	**(357,189)**	**(162,901)**	**(500,530)**
2018	Net debt as at 1 January 2018	15,531	(243,078)	-	(227,547)
	Cash flows	(1,068)	(158,243)	-	(159,311)
	Foreign exchange adjustments	313	(6,924)	-	(6,611)
	Net debt as at 31 December 2018	14,776	(408,245)	-	(393,469)

D. Cash conversion ratio

The cash conversion ratio is one of the key cash performance metrics of the Group, refer to the table below for detailed calculation.

The conversion ratio calculation and the line items as shown in the table below are all non-IFRS information. However, all financial data is based on the information disclosed in the audited financial statements and notes to the financial statements of InvoCare and follow the recognition requirements of Australian Accounting Standards. Although the adoption of AASB 15 and AASB 16 have significant financial impacts on the Group, they have had no cash impact.

	2019 $'000	2018 $'000
Operating EBITDA	**144,433**	118,998
Statutory ungeared, tax free operating cash flows	**100,504**	90,296
Add: Receipts from funds from prepaid contracts performed	**40,842**	46,006
Less: Receipts from prepaid contract sales	**(24,976)**	(34,639)
Add: Other cash flows related to the prepaid contracts funeral business	**2,406**	2,559
Ungeared, tax free operating cash flows	**118,776**	104,222
Proportion of operating EBITDA converted to cash	**82%**	88%

E. Cash and cash equivalents

	2019 $'000	2018 $'000
Cash on hand	**119**	126
Cash at bank	**19,441**	14,650
	19,560	14,776

Cash at bank is non-interest bearing as at 31 December 2018 and 2019. Therefore, the weighted average interest rate for cash at bank is rounded to zero for both 2018 and 2019.

This section contains the key operating assets and liabilities in relation to the three main streams, being funeral business (at-need and pre-need) and the cemetery and crematoria business. These operating assets and liabilities include:

- The trade and receivables, deferred selling costs and revenue (including the impact of transition to AASB 15 Revenue from Contracts with Customers since 2018)
- The prepaid contracts from the pre-need funeral business
- The non-current operating assets, being the land for cemetery, crematoria, plant and equipment for supporting the operations as well as the newly recognised right of use assets (due to the adoption of AASB 16 Leases from 1 January 2019)
- Intangibles recognised for acquired businesses

NOTE 8. Trade receivables

		2019 $'000	2018 $'000
Current	Trade receivables*	**44,351**	36,449
	Less: Loss allowance	**(3,672)**	(3,004)
		40,679	33,445
Non-current	Trade receivables*	**31,480**	12,590
	Less: Loss allowance	**(3)**	(6)
		31,477	12,584

* *Refer to Note 6.F for details of restatement of trade receivable as at 1 January 2018 as a result of the change in accounting method in tax effect accounting for the adoption of AASB 15.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – SIGNIFICANT OPERATING ASSETS AND LIABILITIES

A. Loss allowance

The ageing of the impaired trade receivables provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
Consolidated	**2019 %**	**2018 %**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Forward aged (12 - 60 months contracts)	**0.0%**	0.0%	**32,811**	10,210	**-**	-
Current	**0.2%**	0.2%	**20,047**	22,899	**40**	46
Over 30 days past due	**1.0%**	1.0%	**4,556**	4,298	**46**	43
Over 60 days past due	**8.0%**	8.0%	**2,177**	2,062	**174**	165
Over 90 days past due	**21.0%**	28.8%	**16,240**	9,570	**3,415**	2,756
			75,831	49,039	**3,675**	3,010

The movements of loss allowance of trade receivables are as follows:

	2019 $'000	**2018 $'000**
As at 1 January	**3,010**	2,592
Loss allowance recognised during the year	**1,057**	844
Receivables written off as uncollectable	**(392)**	(426)
As at 31 December	**3,675**	3,010

B. Accounting policies

I. Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are initially recognised at the amount of consideration that is unconditional. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Trade receivables are usually due for settlement no more than 30 days from the date of recognition, except where extended payment terms (up to a maximum of 60 months) have been made available on cemetery and crematorium memorial contracts for sale of interment rights and associated memorials and other merchandise.

Receivables arising from cemetery and crematorium memorial contracts, which are initially expected to be collected over a period exceeding twelve months, are recognised as non-current receivables and measured as the net present value of estimated future cash receipts, discounted at an imputed effective interest rate. Upon initial recognition of the contract receivables, any undelivered portion of the contracts is included in deferred revenue until delivery.

II. Loss allowance on trade receivables

The Group has applied the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

When a trade receivable is uncollectable, it is written off against the loss allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against sundry revenue in the consolidated statement of comprehensive income.

NOTE 9. Deferred selling costs and revenue

This note provided details on the movements for the deferred selling costs and revenue arising from the prepaid funeral contracts.

		Deferred selling costs $'000	Deferred revenue $'000
2019	**Balance as at 1 January 2019**	**42,150**	**138,754**
	Add/(less): Changes during the year		
	Revenue deferred: Cash received from customer instalment payments	**-**	**11,953**
	Revenue recognised related to transition adjustment and instalments received during the year:		
	Cemetery and crematorium memorial products	**(2,036)**	**(16,332)**
	Revenue deferred during the year:		
	Recognition of significant financing on customer advance payments: Cemetery and crematoria memorial products	**-**	**2,867**
	Revenue deferred: Cemetery and crematorium memorial products	**(209)**	**(1,002)**
	Revenue deferred: Administration fees prepaid funeral service contracts	**23**	**1,614**
	Recognition of significant financing on customer advance payments: Administration fees prepaid funeral service contracts	**-**	**1,247**
	Other movements	**-**	**199**
	Balance as at 31 December 2019	**39,928**	**139,300**
	Current	**4,480**	**34,913**
	Non-current	**35,448**	**104,387**
	Balance as at 31 December 2019	**39,928**	**139,300**
2018	Balance as at 1 January 2018	43,877	129,454
	Add/(less): Changes during the year		
	Revenue deferred: Cash received from customer instalment payments	-	24,479
	Revenue recognised related to transition adjustment and instalments received during the year:		
	Cemetery and crematorium memorial products	(2,787)	(21,564)
	Revenue deferred during the year:		
	Recognition of significant financing on customer advance payments: Cemetery and crematoria memorial products	-	3,458
	Revenue deferred: Cemetery and crematorium memorial products	586	-
	Revenue deferred: Administration fees prepaid funeral service contracts	631	1,553
	Recognition of significant financing on customer advance payments: Administration fees prepaid funeral service contracts	-	1,386
	Other movements	(157)	(12)
	Balance as at 31 December 2018	42,150	138,754
	Current	3,101	23,345
	Non-current	39,049	115,409
	Balance as at 31 December 2018	42,150	138,754

Accounting policies

A. Deferred selling costs

Direct selling costs applicable to deferred revenue on undelivered memorials and merchandise are deferred until the revenue is recognised. Direct selling costs applicable to sale of prepaid funeral, cremation and burial contracts are deferred until the underlying service is delivered.

B. Deferred revenue

Revenue relating to undelivered memorials and merchandise are deferred until delivered or made ready for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – SIGNIFICANT OPERATING ASSETS AND LIABILITIES

NOTE 10. Prepaid contracts

A. Statement of comprehensive income impact of undelivered prepaid contracts

	2019 $'000	2018 $'000
Gain on prepaid contract funds under management	**65,881**	13,581
Change in provision for prepaid contract liabilities	**(20,331)**	(18,573)
Net gain/(loss) on undelivered prepaid contracts	**45,550**	(4,992)

B. Movements in prepaid contract funds under management

	2019 $'000	2018 $'000
Balance as at 1 January	**563,587**	545,825
Sale of new prepaid contracts	**24,976**	34,639
Initial recognition of contracts paid by instalment	**2,494**	3,757
Redemption of prepaid contract funds following service delivery	**(40,842)**	(46,007)
Increase due to business combinations	**3,293**	11,792
Increase in fair value of contract funds under management	**65,881**	13,581
Balance as at 31 December	**619,389**	563,587
Current	**57,552**	45,986
Non-current	**561,837**	517,601
Balance as at 31 December	**619,389**	563,587

C. Movements in prepaid contract liabilities

	2019 $'000	2018 $'000
Balance as at 1 January	**510,044**	452,084
Increase due to transition to AASB15: Revenue from Contracts with Customers	**-**	28,590
Sale of new prepaid contracts	**24,976**	34,639
Initial recognition of contracts paid by instalment	**2,494**	3,757
Decrease following delivery of services	**(35,800)**	(41,334)
Increase due to business combinations	**3,338**	13,735
Increase due to significant financing	**20,331**	18,573
Balance as at 31 December	**525,383**	510,044
Current	**48,885**	41,428
Non current	**476,498**	468,616
Balance as at 31 December	**525,383**	510,044

D. Nature of contracts under management and liabilities

Prepaid contracts are tripartite agreements, currently entered into and performed in Australia, whereby InvoCare agrees to deliver a specified funeral service, cremation or burial at the time of need and the beneficiary invests the current price of the service to be delivered with a financial institution and conditionally assigns the benefit to InvoCare.

The assignment of the benefit of the invested funds to InvoCare only becomes unconditional when InvoCare demonstrates that it has delivered the service specified. InvoCare receives the investment returns as well as the initial investment when the service has been delivered.

As required by law, all of the funds are controlled independently of InvoCare.

InvoCare permits, on request, contracts to be paid by instalments over periods not exceeding three years. In some instances these contracts are never fully paid. If, during the three year period the contract becomes at-need, the family is given the option of either paying outstanding instalments and receiving the contracted services at the original fixed price or using the amount paid as a part payment of the at-need service. If the contract is not fully paid after three years InvoCare only permits the family to use the amounts paid as a partial payment of the at-need services. At the end of the year, the total balance of amounts received from instalment payments for incomplete contracts was $6,863,000 (2018: $6,960,000).

During the year, the non-cash fair value movements (i.e. investment earnings) of $65,881,000 in prepaid contract funds under management (2018: $13,581,000) was greater than the non-cash growth due to interest expense increases of $20,331,000 in the liability for future service delivery obligations (2018: $18,573,000).

E. Classification of prepaid funds under management and liabilities

The current and non-current portions of the prepaid contract assets and liabilities are disclosed separately to more clearly reflect the expected pattern of usage associated with the timing of actual contract redemptions.

F. Critical accounting judgements, estimates and assumptions

I. Fair value measurements – prepaid contract funds under management

The fair values of the prepaid contract funds under management are recognised and measured based on inputs that require judgements and estimates. To provide an indication about the reliability of the inputs used in determining fair value of the prepaid contract funds under management, the Group has used Level 2 inputs as prescribed under the accounting standards. Level 2 input for fair value is described as observable inputs either directly (as prices) or indirectly (derived from prices) for the asset or liability, other than the unadjusted quoted prices in active markets.

II. Current and non-current split

The Group determines the classification of current and non-current portions of prepaid contract asset and liabilities based on the pattern of usage (based on an independent actuarial review) associated with the timing of actual contract redemptions. This pattern of usage is based on historical data, is reviewed annually and has remained consistent over the past five years.

G. Accounting policies for prepaid contracts

The Group records the value of the invested funds as an asset and revalues the invested funds to fair value at the end of each reporting period. The Group initially recognises a liability equal to the value of the undelivered service associated with prepaid contracts and adjusts the deferred revenue using a discount rate that results in revenue being recognised that approximates the cash selling price the customer would have paid if the consideration is paid at the same time as the services are provided.

When the service is delivered, the liability is derecognised and included in revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – SIGNIFICANT OPERATING ASSETS AND LIABILITIES

NOTE 11. Non-current operating assets

This note includes the information for the following two categories of non-current operating assets:

- Property, plant and equipment
- Right of use assets (recognised in relation to adoption of AASB 16 from 1 January 2019) and the related lease liability

A. Property, plant and equipment

		Cemetery land $'000	Freehold land $'000	Buildings $'000	Leasehold land and buildings $'000	Leasehold Improvements $'000	Plant and equipment $'000	Total $'000
2019	**Composition as at 31 December 2019**							
	Cost	**121,519**	**102,503**	**216,309**	**4,534**	**27,166**	**175,126**	**647,157**
	Accumulated depreciation/ amortisation	**(9,126)**	**-**	**(67,850)**	**(3,690)**	**(6,979)**	**(95,468)**	**(183,113)**
	Impairment write-downs	**(15,299)**	**-**	**-**	**-**	**-**	**-**	**(15,299)**
	Net book value	**97,094**	**102,503**	**148,459**	**844**	**20,187**	**79,658**	**448,745**
	Movement for the year ended 31 December 2019							
	Opening net book value	**92,386**	**101,964**	**130,826**	**1,014**	**14,289**	**85,099**	**425,578**
	Additions	**2,037**	**-**	**21,899**	**-**	**7,180**	**27,746**	**58,862**
	Additions through business combinations	**3,000**	**1,390**	**2,229**	**-**	**-**	**209**	**6,828**
	Disposals	**-**	**(625)**	**(820)**	**-**	**(56)**	**(15,997)**	**(17,498)**
	Depreciation/amortisation and impairment charge	**(384)**	**-**	**(4,646)**	**(170)**	**(1,962)**	**(16,982)**	**(24,144)**
	Effect of movement in exchange rates	**30**	**505**	**333**	**-**	**11**	**140**	**1,019**
	Transfers to held for sale	**25**	**(731)**	**(1,362)**	**-**	**725**	**(557)**	**(1,900)**
	Closing net book value	**97,094**	**102,503**	**148,459**	**844**	**20,187**	**79,658**	**448,745**
2018	**Composition as at 31 December 2018**							
	Cost	116,426	101,964	195,085	4,534	20,029	188,712	626,750
	Accumulated depreciation/ amortisation	(8,764)	-	(64,259)	(3,520)	(5,740)	(103,613)	(185,896)
	Impairment write-downs	(15,276)	-	-	-	-	-	(15,276)
	Net book value	92,386	101,964	130,826	1,014	14,289	85,099	425,578
	Movement for the year ended 31 December 2018							
	Opening net book value	88,929	92,778	98,117	1,189	11,205	62,507	354,725
	Additions	3,685	837	32,096	-	4,264	37,180	78,062
	Business combinations	-	8,882	6,461	-	124	2,735	18,202
	Disposals	-	(359)	(78)	-	(6)	(540)	(983)
	Depreciation/amortisation and impairment charge	(387)	-	(5,731)	(176)	(1,349)	(17,267)	(24,910)
	Effect of movement in exchange rates	159	2,019	1,243	1	51	484	3,957
	Transfers to held for sale	-	(2,193)	(1,282)	-	-	-	(3,475)
	Closing net book value	92,386	101,964	130,826	1,014	14,289	85,099	425,578

I. Assets in the course of construction

The carrying amounts of assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction.

	2019 $'000	2018 $'000
Cemetery land improvements	**5,571**	3,519
Freehold buildings	**22,262**	11,744
Leasehold improvements	**2,164**	1,177
Plant and equipment	**19,716**	14,318
Total assets in the course of construction	**49,713**	30,758

II. Impairment

All cemetery and crematorium sites were assessed during the year using consistently applied methodology and no changes to the impairment provision were deemed necessary.

In 2017, the Allambe Gardens Memorial Park was impaired due to a reassessment of the land available for memorialisation plots. In 2018, remediation of the residual land at the Memorial Park commenced. The remediation work was completed in January 2020, with sales of burial sites in the newly developed section due to occur in early 2020. The Group will reassess the recoverable amount of the park in June 2020.

The impairment losses recognised over the years may be reversed in future years. The total recoverable amount of the Group's assets is well in excess of carrying value.

The recoverable amount of cash-generating units is based on value-in-use calculations. These calculations use cash flow projections based on financial estimates approved by management based on past performance and future expectations. The cash flows cover an initial five-year period and are then extrapolated beyond five years using estimated growth rates of 3% (2018: 4%) in revenue and 3% (2018: 3%) in expenses which are not inconsistent with historical trends and forecasts included in reports prepared by market analysts. A sensitivity analysis has been conducted on the impaired sites by moving the underlying assumptions both up and down 10%, considered to be within the reasonably possible range of long term outcomes. This analysis demonstrates that changing the assumptions is unlikely to result in a material change in the currently recognised impairment losses. The pre-tax discount rate used was 9.2% (2018: 10.9%), reflecting the risk estimates for the business as a whole.

III. Asset held for sale

Asset held for sale represents property identified as surplus to Group's requirement pursuant to the Network & Brand Optimisation review carried out as part of the Protect & Grow Plan.

B. Right of use assets and lease liabilities

The Group has adopted AASB 16 using the modified retrospective approach from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing accounting are therefore recognised in the opening balance sheet on 1 January 2019. The accounting policies are disclosed in section D.II. in this note below.

The right of use assets and related lease liabilities recognised at 1 January 2019 and the movement during 2019 are disclosed in section I and II below.

I. Right of use assets

2019	Properties $'000	Equipment $'000	Motor vehicles $'000	Total $'000
Composition as at 31 December 2019				
Cost	140,536	694	14,350	155,580
Accumulated depreciation	(11,177)	(269)	(133)	(11,579)
Net book value	**129,359**	**425**	**14,217**	**144,001**
Movement for the year ended 31 December 2019				
Opening net book value (cost only)	121,641	590	22	122,253
Additions	18,895	104	14,328	33,327
Depreciation	(11,012)	(262)	(132)	(11,406)
Effect of movement in exchange rates	(165)	(7)	(1)	(173)
Closing net book value	**129,359**	**425**	**14,217**	**144,001**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – SIGNIFICANT OPERATING ASSETS AND LIABILITIES

The right of use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied. Other right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of initial application.

II. Lease liabilities on related right of use assets

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's weighted average incremental borrowing rate as of 1 January 2019 which was 3.4%.

Lease liabilities recognised in the balance sheet at the date of initial application are as below.

	2019 $'000
Operating lease commitments disclosed as at 31 December 2018	55,532
Discounted using the lessee's incremental borrowing rate at the date of initial application	46,983
Less: Low-value leases recognised on a straight line basis as expense	1,691
Add: Adjustments as a result of a different treatment of extension and termination options*	86,955
Lease liabilities recognised as at 1 January 2019	**135,629**

* *Refer to section III.b below for the Group's assessment confirming it is reasonably certain that InvoCare will exercise its options to renew its operating lease contracts.*

	2019 $'000
Lease liabilities as at 1 January 2019	
Current	13,743
Non-current	121,886
	135,629

III. InvoCare's leasing activities and impact on adoption of AASB16

The Group leases various properties, cemeteries, equipment and cars. Rental contracts are typically made for fixed periods of 5 to 10 years, with some leases for periods of 30 years. The Group's leases may have extension options as described in section b below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

a. Changes in accounting policies on adoption of AASB16

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease. There has been no change to the accounting for finance leases.

From 1 January 2019, the Group adopts AASB16 and accounts for operating leases differently. The accounting policy is disclosed in section D.II below.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right of use assets – increase by $122,253,000
- Deferred tax assets – increase by $5,030,000
- Lease liabilities – increase by $135,629,000
- Provision – increase by $3,496,000

The net impact on retained earnings on 1 January 2019 was a decrease of $11,842,000.

b. Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

c. Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

d. Impact on segment disclosures and earnings

Adjustment to EBITDA, segment assets and segment liabilities for the year ended 31 December 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities.

The following segments were affected by the change in policy for the 2019 year:

	Australia	New Zealand	Singapore	Total
	2019 $'000	**2019** $'000	**2019** $'000	**2019** $'000
Adjustment to EBITDA	11,895	2,334	36	14,265
Depreciation and amortisation	(9,594)	(1,780)	(32)	(11,406)
Finance costs	(3,833)	(925)	(2)	(4,760)
Income tax expense	460	79	-	539
Earnings after tax	**(1,072)**	**(292)**	**2**	**(1,362)**
Total right of use assets	121,783	22,166	52	144,001
Total lease liabilities	**138,843**	**23,989**	**69**	**162,901**

C. Critical accounting judgements, estimates and assumptions

I. Estimated impairment of non-financial assets

The Group annually considers if events or changes in circumstances indicate that the carrying value of non-financial assets may not be recoverable. Similarly, at each reporting date, the non-financial assets that suffered a previous impairment are reviewed for possible reversals of the impairment. The recoverable amounts are determined based on value-in-use calculations which require the use of assumptions. Refer to section A.II above for details of these assumptions and the potential impact to changes to the assumptions.

II. Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Group has assessed it is reasonably certain that it will exercise its option to renew all leases.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – SIGNIFICANT OPERATING ASSETS AND LIABILITIES

D. Accounting policies

I. Property, plant and equipment

Property, plant and equipment are carried at historical cost less depreciation or amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs, maintenance and minor renewals are charged to the statement of comprehensive income during the financial period in which they are incurred.

Cemetery land is carried at cost less accumulated depreciation and impairment write-downs. The Group sells interment and inurnment rights while retaining title to the property. Cemetery land is amortised, as the right to each plot or space is sold, to write off the net cost of the land over the period in which it is utilised and an economic benefit has been received. Other freehold land is not depreciated or amortised.

Depreciation of other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings: 40 years
- Plant and equipment: 3-10 years

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is shorter. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are included in the statement of comprehensive income.

II. Right of use assets and lease liabilities

AASB 16 is adopted by InvoCare and a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group are recognised. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Amounts expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right of use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- Restoration costs

Payments associated with short term leases and leases of low-value assets (less than $10,000) are recognised on a straight line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less. Low-value assets comprise information technology equipment and small items of office equipment.

NOTE 12. Intangibles

		Goodwill $'000	Brand name $'000	Total $'000
2019	**Composition as at 31 December 2019**			
	Cost	**206,949**	**18,549**	**225,498**
	Accumulated amortisation	**-**	**(12,084)**	**(12,084)**
	Impairment	**(24,480)**	**-**	**(24,480)**
	Net book value	**182,469**	**6,465**	**188,934**
	Movement for the year ended 31 December 2019			
	Opening net book value	**197,541**	**7,258**	**204,799**
	Additions through business combinations	**7,210**	**629**	**7,839**
	Finalisation of prior period acquisitions	**1,550**	**-**	**1,550**
	Disposals	**(275)**	**(9)**	**(284)**
	Amortisation charge	**-**	**(1,436)**	**(1,436)**
	Impairment loss	**(24,404)**	**-**	**(24,404)**
	Effect of movement in exchange rates	**847**	**23**	**870**
	Closing net book value	**182,469**	**6,465**	**188,934**
2018	**Composition as at 31 December 2018**			
	Cost	197,541	17,844	215,385
	Accumulated amortisation	-	(10,586)	(10,586)
	Net book value	197,541	7,258	204,799
	Movement for the year ended 31 December 2018			
	Opening net book value	143,688	3,500	147,188
	Additions through business combinations	49,884	4,761	54,645
	Amortisation charge	-	(1,129)	(1,129)
	Effect of movement in exchange rates	3,969	126	4,095
	Closing net book value	197,541	7,258	204,799

A. Impairment test for goodwill

Impairment tests are performed annually, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable.

For the Group's Australian-based operations, goodwill cannot be allocated on a non-arbitrary basis to individual cash generating unit (CGU) due to the significant history of numerous acquisitions, especially during the years 1993 to 1999, 2018 and 2019, and resulting post-acquisition business integration activities and operational changes over many years. New Zealand and Singapore operations are separate CGU and the associated goodwill arising from their acquisition have been allocated to the individual New Zealand or Singapore CGU. As a result, the lowest level within the Group at which goodwill is monitored for management purposes comprises the grouping of all CGUs within a country of operation. The recoverable amounts of the total of Australia, New Zealand and Singapore CGUs are based on value-in-use calculations. These calculations use cash flow projections based on approved financial estimates covering a five-year period. Cash flows beyond the five year period have been extrapolated using estimated growth rates. The assessment also considered the reasonable possible long term shift in key assumptions which may potentially cause an impairment to arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – SIGNIFICANT OPERATING ASSETS AND LIABILITIES

B. Goodwill

I. Impairment of New Zealand CGU

Recoverable amount testing for the period ended 31 December 2019 has identified the New Zealand CGU as being impaired.

As at 31 December 2019, an impairment charge of NZ$25,500,000 of goodwill has been applied as the carrying amount of goodwill, property, plant & equipment, right of use assets and brand names exceeded its recoverable amount within the New Zealand business CGU. The impairment is a result of the financial under performance relative to the original forecast of the New Zealand business during the six months ended 31 December 2019, the competitive landscape and relative size of the New Zealand market and based on revised future forecasts of financial performance of the New Zealand operations.

The remaining goodwill acquired through business combinations or territory acquisitions has been allocated to a reportable segment for impairment testing (refer Note 1).

II. Sensitivity – New Zealand CGU

Each of the sensitivities below assumes that a specific assumption moves in isolation, while other assumptions are held constant. A change in one of the key assumptions could be accompanied by a change in another assumption, which may increase or decrease the net impact.

- Terminal growth rate decreased by 0.5%: $6,007,000
- Post-tax weighted average cost of capital increase by 0.3%: $4,713,000

C. Key assumptions used for value-in-use calculations

Budgeted cash flows have been based on past performance and expectations for the future. The growth rates of 3% (2018: 4%) in revenue, 3% (2018: 3%) in expense and 1% (2018: 1%) in volume growth projections are not inconsistent with historical trends and forecasts included in reports prepared by market analysts. In the calculation of the terminal value, the long term annual growth rate of the real gross domestic product (GDP) of the country is used as a basis for the terminal growth rate. For goodwill, these assumptions are based on the CGU to which the goodwill is attributed.

The pre-tax discount rate used for assessing the carrying value of goodwill in each CGU was as follows:

	2019 %	2018 %
Australian operations	**9.2%**	10.9%
Singapore operations	**9.2%**	10.9%
New Zealand operations	**10.0%**	10.9%

These discount rates reflect the risk estimates for each business as a whole.

Sensitivity analysis indicates significant headroom exists in the value-in-use calculations for Australia and Singapore CGUs compared to the carrying value of goodwill. There is no reasonable possible long term shift in key assumptions considered likely which will cause impairment of either of these two CGUs.

D. Critical accounting judgements, estimates and assumptions

The Group annually considers if events or changes in circumstances indicate that the carrying value of goodwill or cash-generating units may not be recoverable. Similarly, at each reporting date, cash-generating units that suffered a previous impairment are reviewed for possible reversals of the impairment. The recoverable amounts are determined based on value-in-use calculations which require the use of assumptions. Refer to section C. above for details of these assumptions and the potential impact to changes to the assumptions.

E. Accounting policies

I. Goodwill

Goodwill arises on acquisition of business/subsidiary. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed if the related assets subsequently increases in value.

II. Trademarks and brand names

Trademarks and brand names recognised through business acquisitions have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of trademarks and brand names over their estimated useful lives of ten years.

III. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or six monthly only if events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are reviewed for impairment indicators every six months. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The Group's activities expose it to a variety of financial risks. The Group's overall financial risk management strategy focuses on the unpredictability of financial markets and seeks to minimise adverse effects on the Group's financial performance. This section contains disclosures of financial risks the Group is exposed to and how the Group manages those risks.

The capital management, impact of contingencies, commitments and events subsequent to reporting period are also considered in this section

NOTE 13. Financial risk management

The Group operates in different jurisdictions and markets. Strategic risk management is carried out by the Board of Directors. The Audit, Risk & Compliance Committee, which operates under policies approved by the Board, is responsible for operational and financial risk management. These policies provide written principles for overall risk management, as well as policies covering specific areas such as interest rate risk and currency risk.

The table below summarises the key risks identified, exposures and management of exposures.

Risk identified	Definition	Exposures	Management of exposures
Market risk – interest rate	The risk that the value of a financial asset or liability or cash flow associated with the financial asset or liability will fluctuate due to changes in market interest rates	○ Financial assets: mainly cash at bank ○ Financial liabilities: mainly borrowings, prepaid contract liabilities, lease liabilities ○ Further information on exposures is detailed in section A below. Interest rate risk exposure and Hedging effectiveness	○ Fixed interest rate borrowings. ○ Derivative financial instruments, mainly interest rate swaps. ○ Managing to the hedge limits in respect of the policies as approved by the Board. ○ Speculative trading is not permitted.
Market risk – foreign currency	The risk in local currency terms that the value of a financial commitment or a recognised asset or liability, will fluctuate due to changes in foreign currency exchange rates	○ Foreign currency earnings ○ Net investments in foreign operations ○ Foreign currency borrowings ○ Further information on exposures is detailed in section B below. Foreign currency risk exposure	○ Physical financial instruments, including natural hedges from matching foreign assets and liabilities. ○ Speculative trading is not permitted.
Market risk – price	The risk that the investment returns of funds under management on prepaid contracts impacting future income	○ Investment returns of the funds under management of prepaid contracts ○ Majority of the funds under management is placed with the Over Fifty Guardian Friendly Society (OFGFS) ○ Further information on exposures is detailed in section C below. Pricing risk exposure	○ Maintain Board representation in OFGFS. ○ Monitor the investment strategy of OFGFS and the investment assets mix.
Credit risk	The risk that a counterparty will not be able to meet its obligations in respect of a financial instrument, resulting in a financial loss to the Group	○ Recoverability of receivables ○ Recoverability of other financial assets and cash deposits ○ Further information on exposures is detailed in section D below. Credit risk exposure	○ Policies dictate the Group only deals with banks and financial institutions with minimum independent credit ratings. ○ Operations of the Group results in no concentration of customers in any particular region or sector enhanced. ○ Enhanced alternative payment methods for customers in regional areas.
Liquidity risk	The risk of having insufficient funds to settle financial liabilities as and when they fall due	○ Insufficient levels of committed credit facilities ○ Settlement of financial liabilities ○ Further information on exposures is detailed in section E below. Liquidity risk exposure	○ Maintaining sufficient levels of cash and committed credit facilities to meet financial commitments and working capital requirements. ○ Timely review and renewal of credit facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CAPITAL AND RISKS

The Group holds the following financial assets and liabilities:

		2019 $'000	2018 $'000
Financial assets	Cash and cash equivalents	19,560	14,776
	Trade receivables	72,156	46,029
	Prepaid contract funds under management	619,389	563,587
	Other financial assets	4	4
		711,109	624,396
Financial liabilities	Trade and other payables	61,704	61,110
	Borrowings	357,189	408,245
	Lease liabilities	162,901	-
	Derivative financial instruments	4,157	1,795
		585,951	471,150

A. Interest rate risk exposure (cash flow and fair value)

The Group's main interest rate risk arises from long term borrowings. All bank borrowings are initially at variable interest rates determined by a margin over the reference rate based on the Group's leverage ratio. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's policy is to keep 75% of debt, measured by individual currency, on fixed interest rates over the next twelve months by entering into interest rate swap contracts. The policy, however, provides flexibility to reduce the level of coverage in low interest rate currency or when the interest rate outlook is relatively benign. The Group has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates.

In addition to bank borrowings, the Group also entered into a note purchase agreement in February 2018 that is denominated in Australian dollars at a fixed interest rate. This assists in minimising the Group's overall interest rate risk.

The interest rate swaps position and the coverage on outstanding bank borrowings as at end of the financial years are set out in the table opposite.

	2019 %	2018 %
Bank borrowings [a]		
Effective average interest rate as at 31 December	3.94%	4.17%
Interest rate swaps position as at 31 December		
Weighted average fixed interest rate payable	2.34%	2.47%
Weighted average variable interest rate receivable	1.03%	2.05%
Interest rate swaps coverage on outstanding bank borrowings		
Australia	93%	59%
New Zealand	87%	87%
Singapore [b]	Nil	Nil
Combined Australia and New Zealand	91%	75%

a The effective average interest rate includes swaps and margins but excluding establishment fees.

b Due to the relative stability of Singapore interest rates, Singapore denominated debt has been allowed to stay at floating rates.

At balance date, fixed interest rate swaps for 93% (2018: 59%) of Australia debt and 87% (2018: 87%) of New Zealand debt were in place.

Hedging for interest rate risk exposure

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans; therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed by performing a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness may occur due to:

- The credit value/debit value adjustments on the interest rate swaps which is not matched by the loans
- Differences in critical terms between the interest rate swaps and loans

The following variable rate bank borrowings and interest rate swap contracts are outstanding at the reporting date.

	31 December 2019		31 December 2018	
	Weighted average interest rate %	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Variable borrowings	**3.94%**	**259,600**	4.17%	311,230
Interest rate swaps (notional principal)	**2.34%**	**(202,400)**	2.47%	(181,793)
Net exposure to cash flow interest rate risk		**57,200**		129,437

The notional principal amounts and swap liability periods of expiry of the interest rate swap contracts are as follows.

	Nominal Value		Swap Liability	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Less than one year	**74,400**	30,000	**984**	101
One to two years	**54,000**	74,260	**1,340**	906
Two to three years	**49,000**	53,767	**1,143**	663
Three to four years	**25,000**	23,766	**690**	125
	202,400	181,793	**4,157**	1,795

These contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

As a consequence, the Group is exposed to interest rate risks on that portion of total borrowings not swapped to fixed rates and to potential movements in the margin due to changes in the Group's leverage ratio. Where possible, borrowings are made in the same country as the operation being funded to provide a natural hedge against currency volatility. Where this is not possible, other techniques, such as foreign currency bank accounts, are used to mitigate the profit and loss volatility due to currency movements.

Due to the use of floating to fixed interest rate swaps, the Group has fixed interest commitments and the changes in the fair value of the future cash flows of these derivatives are recognised in equity to the extent that the derivative remains effective in accordance with AASB 9 Financial Instruments.

The interest rate swap contracts were all judged to be effective at 31 December 2019 and the movements in the fair value of these instruments have been quarantined in equity.

The overall impact and sensitivities of the interest bearing assets and liabilities and related derivatives of the Group has been summarised in section F is Summarised sensitivity analysis in this note.

B. Foreign currency risk exposure

The Group rarely undertakes significant commercial transactions in currencies other than in the functional currency of the operating subsidiaries in New Zealand and Singapore.

Foreign currency risks arise from recognised assets and liabilities that are denominated in a currency other than the Group's functional currency, the Australian dollar. The major foreign currency risk relates to the investments in subsidiaries in New Zealand and Singapore. This exposes the Group to foreign currency risk on the assets and liabilities.

Borrowings have been made by the New Zealand subsidiary and by the Group in Singapore dollars to provide a natural hedge against the risk of changes in exchange rates in New Zealand and Singapore. The borrowings in Singapore dollars are therefore a hedge of a net investment in a foreign subsidiary.

The Group has no significant unhedged foreign exchange exposures at 31 December 2019. Therefore, there was no ineffectiveness to be recorded from net investments in foreign entity hedges.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows.

	New Zealand Dollars		Singapore Dollars	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Borrowings	**72,000**	71,300	**37,100**	36,322
Derivatives	**1,334**	478	**-**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CAPITAL AND RISKS

C. Price risk exposure

The Group is the ultimate beneficiary of prepaid contract funds under management (Invested Funds) invested in various prepaid contract trusts, as described in Note 10.D. There are a significant number of trusts in existence with various investment profiles.

Accordingly, the Group's future income is sensitive to the price risk relating to the investment returns of these funds under management. These funds are invested in a range of asset classes with different price risk variables including cash, fixed interest, Australian and international equities, hybrids and direct and indirect property. The return on these funds (net of the increase in the liability to deliver the future services) are recognised in the statement of comprehensive income.

87% of the funds are managed by the Over Fifty Guardian Friendly Society (OFGFS) which is controlled by a five-member independent Board with two InvoCare representatives. Non OFGFS funds primarily invested in capital guaranteed funeral bonds managed by a range of APRA regulated institutions.

The OFGFS Board has appointed an Investment Committee (GIC) which is responsible for the management of the Invested Funds in accordance with an approved Investment Policy Statement (IPS). The IPS provides guidance on the ongoing prudent and efficient management of the investment arrangements. The principle objective of the Invested Funds is to maximise returns without exceeding risk levels specified in the Investment Guidelines. By pursuing these objectives, the Invested Funds are expected to provide a long-term rate of return sufficient to meet the original plus subsequent increases in retail prices of delivering the promised funeral services after considering all Invested Funds expenses and tax.

The GIC regularly sets a target asset allocation to ensure investment activity sits within the stated risk profile and to also ensure that other limits specified in the IPS are being met. External consultants are engaged to review the risk and return forecasts on a regular basis and recommend amendments to the target asset allocation if required.

Normally funds are invested for extended periods, with the median life of a prepaid funeral contract being circa nine years. Liquidity risk is considered low with the flow of funds from the sale of new contracts exceeding redemptions in most years. The fund can therefore take a long-term view on its investment horizon and absorb short term fluctuations in returns caused by market volatility.

The asset allocation at year end of prepaid contract funds under management is as follows:

	2019 %	2018 %
Equities	**43%**	31%
Property	**27%**	25%
Cash and fixed interest (includes hybrid securities)	**30%**	44%

Other than disclosed above, the Group does not hold any investments in equities or commodities and is therefore not subject to price risk.

Based on the asset allocation as at 31 December 2019 and 31 December 2018 the following changes in investment returns are reasonably probable.

	31 December 2019		31 December 2018	
	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Asset class				
Equities (plus or minus 10%)	**26,875**	**(26,875)**	17,702	(17,702)
Property (plus or minus 3%)	**4,993**	**(4,993)**	4,278	(4,278)
Cash and fixed interest (no price risk)	**-**	**-**	-	-
	31,868	**(31,868)**	21,980	(21,980)

D. Credit risk exposure

Credit risk is managed on a Group basis. Credit risk arises from cash and deposits with banks and financial institutions, derivative financial instruments, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of AA- are accepted.

Credit risks in relation to customers are highly dispersed and without concentration on any particular region or sector. The trade receivables are non-interesting bearing. Funeral homes attempt to collect deposits at the time the service is commissioned both as a sign of good faith and in order to cover out-of-pocket expenses. Cemetery and crematorium products are generally not delivered prior to the receipt of all or substantially all of the amounts due.

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of rolling 24 months before the financial year ended 31 December 2019. Refer to Note 8 for details of loss allowance and movement for the financial year.

Receivables past due but not impaired

As of 31 December 2019, trade receivables of $18,441,000 (2018: $7,464,000) were past due but not impaired. These relate to customers where there is no current evidence of an inability or unwillingness to settle the amount due but where payment has been delayed. As such these amounts are not considered to be in default.

The Group's own collection activity, which varies based on the nature and relative age of the debt, is routinely applied to all past due accounts. When these activities do not result in a successful recovery of the debt, it is referred to external debt collection agencies.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators which include amongst others, is the failure of the debtor to engage in a repayment plan with the Group. Once all attempts to recover the debt have been exhausted, then a debt is considered to be in default and written off. Subsequent recoveries of amounts previously written off are credited against sundry revenue in the consolidated income statement.

E. Liquidity risk exposure

Prudent liquidity management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the relatively stable nature of the Group's business, management aims to maintain a large portion of committed credit lines on a long term basis.

In February 2018, the Group entered into new financing arrangements:

- A Syndicated Facility Agreement supported by ANZ, Westpac, HSBC, Mizuho and SMBC providing $150,000,000 for five years on a fully drawn basis and $200,000,000 three-year revolving facility. Both facilities are multi-currency allowing drawings in Australian, New Zealand and Singaporean dollars
- A Note Purchase Agreement with Metlife for $100,000,000 for ten years at a fixed rate and drawn in Australian dollars to eliminate currency risks

During 2019, the Group completed an Institutional Placement and a Share Purchase Plan to raise $85,949,000 of ordinary share capital. The cash from the capital raised are used to repay borrowings.

At 31 December 2019, the Group had drawn down $359,600,000 borrowings (from total $450,000,000 debt facilities) compared to $411,200,000 at 31 December 2018.

The facilities agreements' covenant ratios are calculated on a rolling 12-month basis and have been met at 31 December 2019. The ratio of Net Debt to bank adjusted operating EBITDA must be no greater than 3.5 and the ratio of EBITDA to net interest must be greater than 3.0.

Details of the facilities available, drawn down, unused by facilities disclosed in the table below.

	2019 $'000	2018 $'000
Total facilities available		
Working capital facility - expiring within one year	**9,638**	9,624
Unsecured loan facility - expiring in two to five years	**450,000**	450,000
	459,638	459,624
Drawn down as at 31 December		
Working capital facility - expiring within one year	**3,297**	2,495
Unsecured loan facility* - expiring in two to five years	**359,600**	411,230
	362,897	413,725
Unused as at 31 December		
Working capital facility - expiring within one year	**6,341**	38,770
Unsecured loan facility* - expiring in two to five years	**90,400**	7,129
	96,741	45,899

* *The balance of the borrowings, unsecured loan facility outstanding as at 31 December after loan establishing costs is as follows:*

	2019 $'000	2018 $'000
Long-term borrowings outstanding as at 31 December		
Unsecured loan facility - expiring in two to five years	**359,600**	411,230
Less: Loan establishment costs	**(2,411)**	(2,985)
	357,189	408,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CAPITAL AND RISKS

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on their contractual terms as at the reporting date. Trade and other payables, lease liabilities and borrowings are non-derivative liabilities.

		Less than one year $'000	Two to three years $'000	More than three years $'000	Total $'000
2019	Trade and other payables	**60,904**	**800**	**-**	**61,704**
	Lease liabilities	**12,934**	**28,639**	**121,328**	**162,901**
	Borrowings	**-**	**259,600**	**100,000**	**359,600**
	Derivatives	**984**	**2,483**	**690**	**4,157**
2018	Trade and other payables	61,110	-	-	61,110
	Borrowings	-	159,767	251,463	411,230
	Derivatives	101	1,569	125	1,795

F. Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk net of applicable income tax.

			Interest rate risk				Foreign exchange risk			
			-100 basis point		+100 basis point		-10%		+10%	
		Carrying amount $'000	Profit/ (loss) $'000	Equity $'000	Profit/ (loss) $'000	Equity $'000	Profit/ (loss) $'000	Equity $'000	Profit/ (loss) $'000	Equity $'000
2019	**Financial assets**									
	Cash and cash equivalents	**19,560**	**(137)**	**-**	**137**	**-**	**-**	**-**	**-**	**-**
	Trade receivables	**72,156**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Prepaid contract funds under management	**619,389**	**(4,567)**	**-**	**4,567**	**-**	**-**	**-**	**-**	**-**
	Other financial assets	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Financial liabilities									
	Trade and other payables	**(61,704)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Lease liabilities	**(162,901)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Borrowings	**(357,189)**	**(400)**	**-**	**400**	**-**	**(325)**	**(637)**	**266**	**(5,178)**
	Derivatives	**(4,157)**	**-**	**1,424**	**-**	**(1,424)**	**-**	**637**	**-**	**5,178**
	Total increase/(decrease)		**(5,104)**	**1,424**	**5,104**	**(1,424)**	**(325)**	**-**	**266**	**-**
2018	**Financial assets**									
	Cash and cash equivalents	14,776	(71)	-	71	-	-	-	-	-
	Trade receivables	46,029	-	-	-	-	-	-	-	-
	Prepaid contract funds under management	563,587	(951)	-	951	-	-	-	-	-
	Other financial assets	4	-	-	-	-	-	-	-	-
	Financial liabilities									
	Trade and other payables	(61,110)	-	-	-	-	-	-	-	-
	Borrowings	(408,245)	(773)	-	773	-	(317)	2,542	259	(2,426)
	Derivatives	(1,795)	-	1,273	-	(1,273)	-	(2,542)	-	2,426
	Total increase/(decrease)		(1,795)	1,273	1,795	(1,273)	(317)	-	259	-

NOTE 14. Contributed equity

	2019 Number '000	2018 Number '000	2019 $'000	2018 $'000
Ordinary shares - fully paid	**117,185**	110,256	**234,513**	139,589
Treasury shares - fully paid	**(1,225)**	(1,261)	**(14,687)**	(15,449)
	115,960	108,995	**219,826**	124,140

A. Ordinary shares

	2019 Number '000	2018 Number '000	2019 $'000	2018 $'000
Movement during the financial year				
Balance as at 1 January	**110,256**	110,030	**139,589**	136,858
Shares issued for Dividend Reinvestment Plan*	**664**	226	**9,137**	2,731
Shares issued for Institutional Placement and Share Purchase Plan	**6,265**	-	**85,787**	-
Balance as at 31 December	**117,185**	110,256	**234,513**	139,589

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

* *During 2006, the Company activated its Dividend Reinvestment Plan under which equity holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied in ordinary shares rather than by being paid in cash.*

B. Treasury shares

	2019 Number '000	2018 Number '000	2019 $'000	2018 $'000
Movement during the financial year				
Balance as at 1 January	**(1,261)**	(192)	**(15,449)**	(514)
Disposal of shares - vested share rights/options	**12**	75	**450**	951
Disposal of shares - transfer to EESP's members	**24**	22	**312**	310
Acquisition of shares by the Trust	**-**	(1,166)	**-**	(16,196)
Balance as at 31 December	**(1,225)**	(1,261)	**(14,687)**	(15,449)

Treasury shares are shares in InvoCare Limited that are held by the InvoCare Deferred Employee Share Plan Trust (Trust) for the purpose of issuing shares under the InvoCare Deferred Employee Share Plan, as set out in Note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CAPITAL AND RISKS

C. Capital management

The Group's capital management objectives and strategies seek to maximise total shareholder returns, while maintaining a capital structure with acceptable debt and financial risk.

The capital management goals can be broadly described as:

- Manage the amount of equity and the expectation of returns - including dividend distribution policy, dividend reinvestment and share buy-back policies
- Maintain debt and gearing that is prudent, cost effective, supports operational needs and provides flexibility for growth and development
- Avoid excessive exposure to interest rate fluctuations and debt refinancing risk

The goals are actively managed by the use of quantifiable measures. These measures and relevant comments are as follows:

- Maximising shareholder returns: Earnings per share (EPS) is a key measure and for 2019, basic EPS was 55.8 cents (2018: 37.8 cents). Operating EPS, which excludes restructuring costs, gains and losses on the disposal or impairment of non-current assets and on undelivered prepaid contracts and non-controlling interests and disposal of subsidiaries, was 51.7 cents (2018: 45.2 cents). Importantly, senior management of the Group have long-term incentives linked to EPS growth, thus aligning employee and shareholder interests. Total compound annual shareholder return, being the sum of cash dividends and share price growth, has exceeded 17% per annum since the Company listed in December 2003, except for 2008 when global equity market values declined, although InvoCare's share price did not fall as significantly as the rest of the market
- Maintaining a minimum ordinary dividend payout ratio of at least 75% of operating earnings after tax. For each of the years since listing, the Group has distributed ordinary dividends in excess of this payout ratio. The aggregate of the interim and final 2019 dividends represents a payout ratio of 79% (2018: 82%) of operating earnings after tax
- Confirming compliance with the debt covenant ratios, as defined in the facility agreements, through bi-annual calculations. The Group has complied with its banking covenants as follows:
  - Interest cover (EBITDA/Net interest expense) must be greater than 3.00:1
  - Leverage ratio (Net debt/Adjusted EBITDA) must not be greater than 3.50:1
- Maintaining an optimal leverage ratio: The optimal capital structure, which has the lowest cost of capital, is indicatively at a leverage ratio (i.e. Net debt/EBITDA) of no higher than a range between 3:1 and 3.5:1 but preferably lower than 3:1 with an interest cover ratio of greater than 4:1. A liquidity buffer of at least $25 million should be maintained. 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
- Maintaining floating to fixed base interest rate swaps for at least 75% of debt principal in Australia and New Zealand
- Managing refinancing risk: By spreading the tenure of the debt available to the Group minimises its exposure to the risks that all the debt will become due at a single point of time

D. Accounting policy for ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

NOTE 15. Contingencies

There were no unrecognised contingent assets as at 31 December 2019 and 31 December 2018.

The Group had the following guarantee which are determined as contingent liabilities at 31 December 2019:

- Bank guarantees given for leased premises of subsidiaries to a maximum of $3,261,000 (2018: $2,428,000)
- Deed of cross guarantee by a number of the entities within the Group. Refer to Note 22 for further details of the bank guarantee

NOTE 16. Commitments

As at reporting date, the Group has the following capital and other commitments which are not recognised as liabilities.

	2019 $'000	2018 $'000
A. Capital commitments		
Contracted and conditionally contracted - within one year building extensions and refurbishments	**4,969**	14,321
Leasehold improvements	**70**	-
Plant and equipment purchases	**434**	2,580
B. Other commitments		
Within one year		
Documentary letters of credit	**35**	67

C. Operating lease commitments

The Group leases premises, motor vehicles and sundry office equipment under non-cancellable operating leases with terms generally from one to five years. The Rookwood Crematorium lease expires in 2025. The Great Southern Garden of Remembrance lease expires in 2047 with an option to renew for a further 50 years.

From 1 January 2019, the Group has recognised right of use assets for these leases, except for short term and low value leases, see Note 11. B. Right of use assets for further information.

Contracted non-cancellable operating leases committed at reporting date but not recognised as liabilities or payable are provided in the table below.

	2019 $'000	2018 $'000
Within one year	**1,723**	14,946
One to five years	**711**	37,989
Greater than five years	**-**	2,597
	2,434	55,532

NOTE 17. Events after reporting period

Apart from the dividend declared as disclosed in Note 4, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – BUSINESS PORTFOLIO

This section provides information on how the Group structure affects the financial position and performance of the Group as a whole. The disclosures detail the types of entities and transactions included in the consolidation and those excluded.

NOTE 18. Business combinations

A. Acquisitions for the year ended 31 December 2019

I. Summary of acquisitions

During the year ended 31 December 2019, the Group acquired three businesses. A summary of the purchase consideration, goodwill and identifiable assets and liabilities acquired for all the acquisitions are presented below.

The accounting for these acquisitions is provisional as at 31 December 2019.

Subsidiaries/businesses acquired are:

- Australian Heritage Funerals in Toowoomba Queensland
- Batemans Bay & Moruya District Funerals
- Broulee Memorial Gardens in the South Coast of New South Wales

The purchase consideration, fair value of identifiable net assets acquired, and goodwill are disclosed below:

a. Total purchase consideration paid/payable

2019	Australian Heritage Funerals $'000	Batemans Bay & Moruya District Funerals $'000	Broulee Memorial Gardens $'000	Total $'000
Cash consideration	2,635	5,152	4,421	12,208
Contingent consideration	300	-	-	300
Deferred consideration	-	-	500	500
Total purchase consideration	**2,935**	**5,152**	**4,921**	**13,008**

b. Identifiable assets and liabilities acquired

2019	Australian Heritage Funerals $'000	Batemans Bay & Moruya District Funerals $'000	Broulee Memorial Gardens $'000	Total $'000
Cash and cash equivalents	-	-	-	-
Inventories	35	-	-	35
Other current assets	-	9	3	12
Property, plant and equipment	85	3,056	3,687	6,828
Right of use assets	-	-	-	-
Prepaid contract funds under management	640	2,653	-	3,293
Identifiable intangibles	100	308	221	629
Prepaid contract liabilities	(685)	(2,653)	-	(3,338)
Other liabilities	(9)	(42)	(118)	(169)
Deferred tax liability	(17)	(544)	(931)	(1,492)
Total net identifiable assets acquired	**149**	**2,787**	**2,862**	**5,798**
Goodwill	**2,786**	**2,365**	**2,059**	**7,210**

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, then the acquisition accounting will be revised.

c. Financial performance of acquired businesses

2019	Australian Heritage Funerals $'000	Batemans Bay & Moruya District Funerals $'000	Broulee Memorial Gardens $'000	Total $'000
Revenue	845	87	52	984
Net profit/(loss) after tax	**127**	**(8)**	**21**	**140**

If all the acquisitions had occurred on 1 January 2019, consolidated revenue and profit after tax for the year ended 31 December 2019 would have increased by approximately $3,700,000 and $500,000, respectively.

d. Total purchase consideration – cash flows

2019	Australian Heritage Funerals $'000	Batemans Bay & Moruya District Funerals $'000	Broulee Memorial Gardens $'000	Total $'000
Outflow of cash to acquire subsidiary/ businesses, net of cash acquired				
Cash consideration	2,635	5,152	4,421	12,208
Less: Cash balances acquired	-	-	-	-
Add: Acquisition related costs*	-	-	-	2,021
Add: Payment of deferred consideration (Archer's Funerals)	-	-	-	1,000
Net cash outflows – investing activities	**2,635**	**5,152**	**4,421**	**15,229**

* *Acquisition-related costs totalling $2,021,000 (as shown on the consolidated statement of comprehensive income) are not able to be allocated to individual transactions as they include the costs of operating a Mergers and Acquisitions team in addition to costs arising directly attributable to the acquisitions.*

B. Acquisition for the year ended 31 December 2018

For all eleven acquisitions settled during the prior year ended 31 December 2018, the accounting for all of them has been finalised during 2019. The only changes to the financial information disclosed for each acquisition in the 2018 Annual Report relate to the finalisation of the tax effect accounting for non-depreciable buildings which resulted in an increase to deferred tax liabilities by $1,550,000 and a corresponding increase in goodwill by $1,550,000. Refer to 2018 Annual Report for further details of those acquisitions.

C. Accounting policies for business combination

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. Any variations in the initial estimates of deferred consideration and the final amount payable are remeasured through the statement of comprehensive income.

The present value of contingent consideration is classified as a financial liability and is subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The acquisition-related costs are recorded in the statement of comprehensive income.

NOTE 19. Interests in subsidiaries

A. Interests in subsidiaries

Set out below are the Group's principal trading subsidiaries at 31 December 2019. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation or registration is also their principal place of business. The principal activities of all these subsidiaries are funeral services provider.

Name of subsidiaries	Country of incorporation	Ownership interest 2019 %	2018 %
InvoCare Australia Pty Limited	Australia	**100**	100
Bledisloe Australia Pty Ltd	Australia	**100**	100
InvoCare New Zealand Limited	New Zealand	**100**	100
William Morrison Funeral Director	New Zealand	**100**	100
Singapore Casket Company (Private) Limited	Singapore	**100**	100

Shares in subsidiaries are carried at cost and relate to InvoCare Limited's ownership interest in InvoCare Australia Pty Limited, InvoCare (Singapore) Pty Limited, InvoCare New Zealand Limited and InvoCare Hong Kong Limited. All shares held are ordinary shares.

InvoCare Australia Pty Limited, InvoCare (Singapore) Pty Limited and Bledisloe Australia Pty Ltd have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission. For further information refer to Note 23.

B. Significant restrictions

Other than those imposed by the legislative provisions in the respective country of incorporation, for the subsidiaries listed above, the Group has no significant restriction on its ability to access or use assets and settle liabilities.

C. Subsidiaries with non-controlling interests (NCI)

One subsidiary, Macquarie Memorial Park Pty Limited, has non-controlling interests of 16.86% (2018: 16.86%). During the year dividends totalling $121,000 were paid to non-controlling interests (2018: $79,000).

D. Employee share trust

The Group has formed a trust to administer the InvoCare Exempt Employee Share Plan and the InvoCare Deferred Employee Share Plan.

E. Accounting policies

I. Subsidiaries

Subsidiaries are all entities (including employee share trust) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

II. Consolidation of subsidiaries

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 19.C.).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of non-wholly owned subsidiaries are shown separately in the consolidated statement of comprehensive income and balance sheet, respectively.

III. Employee share trust

The employee share trusts are consolidated, as the substance of the relationship is that the trusts are controlled by the Group. Shares held by the InvoCare Deferred Employee Share Plan Trust are disclosed as treasury shares and deducted from contributed equity.

IV. Foreign currency translation on subsidiaries

The results and financial positions of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each statement of comprehensive income are translated at average exchange rates
- All resulting exchange differences are recognised in other comprehensive income

On consolidation, exchange differences arising from the translation of any net investment in foreign subsidiaries, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences will be recognised in the statement of comprehensive income, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of the foreign subsidiaries and translated at the closing rate.

This section provides information on other disclosures which are required by various accounting standards and reporting requirements.

NOTE 20. Share-based remuneration

The ultimate objective of share-based remuneration is to align the participants with delivery of shareholder value. Long term incentives, with appropriate performance hurdles, align participants to the longer term strategies, goals and objectives of the Group, and provide greater incentive for senior employees to have broader involvement and participation in the Group beyond their immediate role. Equity participation also assists the Group to attract and retain skilled and experienced senior employees.

The obligations under share-based payment arrangements are settled by either issuing new ordinary shares in the Company or acquiring ordinary shares of the Company on market. Overseas participants receive cash equivalent to the value of the equity awarded that vests.

Trading in the Company's ordinary shares awarded under the share-based remuneration arrangements is governed by the Company's Share Trading Policy. The policy restricts employees from trading in the Company's shares when they are in a position to be aware, or are aware, of price sensitive information. The policy also implements blackout periods which prohibit trading in the Company's shares in the lead up to the Group's half year and annual result announcements, unless Board express approval is obtained.

The arrangements are governed by the terms of the Company's three Plan Rules.

Three plans are currently in operation. They are:

- Plan is available to eligible employees, who meet the employment conditions
  - Exempt Employee Share Plan (EESP) – in the form of shares to the maximum value of $1,000 instead of cash salary
- Plans are only available to nominated employees
  - Performance Long-term Incentive Plan (PLTIP) – in the forms of options and performance rights or cash equivalent, they will vest if the performance and employment conditions are both met
  - Deferred Employee Share Plan (DESP) – in the form of shares or share appreciation rights (SARs) for overseas employees which will vested when employment condition is met and performance conditions are met for senior management team. The performance based section of this plan is replaced by PLTIP from 2016 onwards

A. Exempt Employee Share Plan

Australian based permanent employees with more than six months service and a salary less than $180,000 per annum and casual staff with more than two years service routinely working at least 40% of a full time equivalent are annually offered the opportunity to acquire $1,000 worth of InvoCare Limited shares via a salary sacrifice arrangement as permitted by Australian Taxation Legislation. During 2019, 310 employees accepted the offer and at 31 December 2019 a further $163,000 was remaining to be collected via payroll deductions.

B. Performance Long-term Incentive Plan

This plan was introduced during 2016. For senior management team, it replaces the DESP (for the performance based section as described in section C below). The plan permits settlement in either equity or cash, at the Board's discretion. The plan provides options and performance rights to senior management team and is heavily weighted towards options, so employees are incentivised to maximise shareholder value in the longer term.

The key terms and conditions of this plan:

- In the form of options and performance rights to be granted as approved by the Board
- Both options and performance rights are granted for nil consideration
- Allocation between options and performance rights is:
  - For senior management team (including key management personnel): 75%:25% per the Board's discretion
  - For other participants: 50%:50% based on the contractual arrangement or election
- Upon vesting:
  - For Australian participants, each option and performance right (after paying the options price) entitle the participant to subscribe for one InvoCare ordinary share
  - For overseas participants, each option and performance right (after paying the options price) entitle the participant to receive cash equivalent value of one InvoCare ordinary share at the market value at date of vesting
- For 2016 and 2017 grants, each grant is divided in three equal tranches and the first testing date of the three tranches are; in the second, third and fourth year anniversary following the grant year with last retesting in the fifth year anniversary
- For grants from 2018 onwards, each grant is divided in two equal tranches and the first testing date of the two tranches are; in the third and fourth year anniversary following the grant year with last retesting in the fourth year anniversary
- Unvested options and performance rights can be retested in the following testing period

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- Vesting of options and performance rights is conditional on meeting a minimum level of return on vested capital (ROIC[a])
- Performance hurdle: compound annual growth (CAGR) target: Normalised EPS[b] growth above the base year
- Vesting scale:
  - For 2016 and 2017 grants: Below 7% CAGR: Nil; At 7%: 30%; Between 7% and 12%: straight line pro rata vesting between 30%-100%; At or above 12%: 100%
  - For grants from 2018 onwards: Below 8% CAGR: Nil; At 8%: 30%; Between 8% and 12%: straight line pro rata vesting between 30%-100%; At or above 12%: 100%
- Not entitled to any dividends or voting rights during the vesting period
- Upon termination of employment ,all unvested options and performance rights will be forfeited
- Clawback and malus: the Board, at its sole discretion, may determine that all or part of any vested and unvested options or performance rights may be forfeited in certain circumstance

a ROIC means return on invested capital and is calculated by dividing the operating earnings by the average invested capital.

b Normalised EPS means constant currency EPS adjusted to exclude the after tax impacts of funds under management movements, the gain or loss on the sale, disposal or impairment of non-current assets, non-cash movements in derivative financial instruments reported in profit before tax and impacts of changed accounting policies because of changes of accounting standards from the base year.

The fair value of the options and performance rights at grant date is estimated using Black-Scholes Pricing model. The model takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option.

The following information related to the options and performance rights issued under the PLTIP.

	Grant date	Expiry date	Fair value at grant date	Balance at the start of the year Number	Granted Number	Vested Number	Lapsed Number	Balance at the end of the year Number
Options	1/01/2016	1/01/2026	$2.40	367,866	-	(4,024)	-	363,842
	22/02/2016	22/02/2026	$2.40	20,946	-	-	-	20,946
	1/01/2017	1/01/2027	$2.93	384,779	-	-	-	384,779
	22/02/2017	22/02/2027	$2.93	16,221	-	-	-	16,221
	1/01/2018	1/01/2028	$2.78	605,974	-	-	-	605,974
	1/01/2019	1/01/2029	$2.51	-	795,028	-	-	795,028
				1,395,786	795,028	(4,024)	-	2,186,790
Performance rights	1/01/2016	1/01/2026	$12.08	36,324	-	(1,420)	-	34,904
	1/03/2016	1/03/2021	$12.08	256	-	-	-	256
	22/02/2016	22/02/2026	$12.08	2,983	-	-	-	2,983
	1/01/2017	1/01/2027	$14.06	37,321	-	-	-	37,321
	22/02/2017	22/02/2027	$14.06	3,380	-	-	-	3,380
	1/03/2017	1/03/2028	$14.06	331	-	-	-	331
	1/01/2018	1/01/2028	$13.91	55,494	-	-	-	55,494
	1/03/2018	1/03/2028	$13.91	335	-	-	-	335
	23/08/2018	23/08/2028	$13.91	1,354	-	-	-	1,354
	1/01/2019	1/01/2029	$12.96	-	70,089	-	-	70,089
				137,778	70,089	(1,420)	-	206,447

The value of the options and performance rights exercised is based on the VWAP for the year ended 31 December 2019 and was $14.08.

C. Deferred Employee Share Plan

This plan introduced in 2007 is settled by the transfer of InvoCare ordinary shares to participants upon vesting. This plan is for recognising, rewarding and retaining InvoCare's key talent in critical roles in middle management level. Eligible employees participate in this plan based on nomination only.

Prior to 2015, the senior management team participate in this plan is also required to meet both performance and employment conditions

The required ordinary shares are purchased on market held by the Deferred Employee Share Plan Trust. In the event that the Trust has sufficient ordinary shares, due to forfeits. For new grants, the number of shares to be allocated to eligible employees is based on the volume weighted average price (VWAP) of InvoCare ordinary shares traded during the first 10 days of the trading window that immediately follows the announcement of the previous full year results.

The key terms and conditions of this plan:

- In the form of shares to be granted as approved by the Board
- Shares are granted for nil consideration
- The vesting conditions are:
  - To meet both performance and ongoing employment conditions at date of vesting for prior to 2015, for senior management team participants prior to 2016
  - To meet ongoing employment condition the date of vesting for all other participants
- Each grant of shares is divided in three equal tranches
- For ongoing employment condition only shares, the vesting date of the three tranches are:
  - Tranche 1 – completion of 12 months employment from grant date
  - Tranche 2 – completion of 24 months employment from grant date
  - Tranche 3 – completion of 36 months employment from grant date
- For performance and ongoing employment conditions shares, the shares are divided into three equal tranches. The first testing date of the three tranches are; in the second, third and fourth year anniversary following the grant year with last retesting for unvested right in the fifth year anniversary
- Performance hurdle: compound annual growth (CAGR) target: Adjusted EPS* growth above the base year
- Vesting scale: Below 7% CAGR: Nil; At 7%: 30%; Between 7% and 10%: straight line pro rata vesting between 30%-100%; At or above 10%: 100%
- Entitle to receive any dividends that may become payable on the shares during the vesting period
- Entitle to voting rights of the shares during the vesting period
- Upon termination of employment ,all unvested shares will be forfeited

* *Adjusted EPS means EPS adjusted to exclude the gain or loss on the sale, disposal or impairment of non-current assets, reported in profit before tax and impacts of changed accounting policies because of changes of accounting standards from the base year.*

The following information relates to the shares held in the share plan trust under this plan.

	Grant date	Expiry date	Fair value at grant date	Balance at the start of the year Number	Granted Number	Vested Number	Lapsed Number	Balance at the end of the year Number
Shares - ongoing employment condition only	1/03/2016	1/03/2031	$12.08	6,221	-	**(3,110)**	-	3,111
	1/03/2017	1/03/2032	$14.06	11,004	-	**(3,670)**	-	7,334
	1/03/2018	1/03/2028	$13.91	12,801	-	-	-	12,801
	1/03/2019	1/03/2029	$14.46	-	29,617	-	-	29,617
				30,026	29,617	(6,780)	-	52,863
Shares - performance and ongoing employment conditions	1/01/2015	1/01/2020	$13.74	4,330	-	-	-	4,330
	1/01/2015	1/01/2030	$13.74	8,011	-	-	-	8,011
	1/03/2015	1/03/2030	$13.74	2,669	-	(2,669)	-	-
	31/03/2015	31/03/2030	$13.74	5,804	-	-	-	5,804
				20,814	-	(2,669)	-	18,145

The value of the options and performance rights exercised is based on the VWAP for the year ended 31 December 2019 and was $14.08.

NOTE 21. RELATED PARTY TRANSACTIONS

A. Key management personnel compensation

	2019 $	2018 $
Short-term employee benefits	**3,316,765**	3,340,522
Termination benefits	**-**	-
Post-employment benefits	**160,227**	166,601
Other long-term benefits	**29,108**	29,624
Share-based payments	**(455,602)**	182,175
	3,050,498	3,718,922

B. Parent entity

The ultimate parent entity within and for the Group is InvoCare Limited.

C. Transactions with subsidiaries

All transactions that have occurred among the subsidiaries within the Group have been eliminated for consolidation purposes.

D. Transactions with other related parties

The contributions to superannuation funds on behalf of employees are disclosed in Note 5.E.

NOTE 22. PARENT ENTITY INFORMATION

A. Summary financial information

The financial information provided in the table below is only for InvoCare Limited, the parent entity of the Group.

	2019 $'000	2018 $'000
Statement of comprehensive income		
Profit after income tax	**66,079**	56,414
Total comprehensive income	**65,024**	52,647
Balance sheet		
Current assets	**2,015**	-
Total assets	**653,989**	578,858
Current liabilities	**2,353**	1,338
Total liabilities	**256,760**	302,733
Equity holders' equity		
Contributed equity	**219,826**	124,140
Share-based payments reserve	**2,055**	246
Cash flow hedges reserve	**(1,976)**	(921)
Foreign currency translation reserve	**1,080**	1,080
Retained profits	**176,244**	151,580
Total equity holders' equity	**397,229**	276,125

B. Guarantees entered into by the parent entity

The parent entity provided the following guarantees during the year ended 31 December 2019 and 31 December 2018:

- Bank guarantees given for leased premises of subsidiaries to a maximum of $3,261,000 (2018: $2,428,000)
- Under the terms of a General Security Trust Deed executed on 16 February 2018 the parent entity, InvoCare Limited, and its material wholly-owned subsidiaries (the Guarantors) have individually guaranteed to the financiers the due and punctual payment in full of any liabilities or obligations provided under the terms of the Syndicated Facility Agreement and the Note Purchase Agreement both dated 16 February 2018. The Guarantors have also indemnified the financiers against any loss or damage suffered by the financiers arising from any failure by a borrower or any Guarantor to satisfy the obligations

C. Contingent liabilities

Other than the guarantees as disclosed in section B above, there were no unrecognised contingent liabilities as at 31 December 2019 and 31 December 2018.

D. Capital commitment – property, plant and equipment

The parent entity has no capital commitments for the acquisition of property, plant or equipment at 31 December 2019 and 31 December 2018.

E. Tax consolidation group

InvoCare Limited (the head entity) and its wholly-owned Australian subsidiaries implemented the tax consolidation legislation from 1 January 2004.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing and funding agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned subsidiaries in the case of a default by the head entity.

This agreement was updated on 5 June 2007 and provides that the wholly-owned subsidiaries will continue to fully compensate InvoCare Limited for any current tax payable assumed and be compensated by InvoCare Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to InvoCare Limited under the tax consolidation legislation.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. InvoCare Australia Pty Limited, as permitted by the tax funding agreement, acts on behalf of InvoCare Limited for the purpose of meeting its obligations to make tax payments, or receive refunds, and reimburses, or is compensated by, that entity through the intercompany loan account for amounts of tax paid, or received, except for the tax allocated to that entity.

F. Accounting policy applicable to parent entity

The accounting policies of the parent entity are consistent with those of the Group, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment

NOTE 23. Deed of cross guarantee

InvoCare Limited, InvoCare Australia Pty Limited and InvoCare (Singapore) Pty Limited entered into a Deed of Cross Guarantee on 11 December 2006 under which each company guarantees the debts of the others. Effective from 15 June 2011 Bledone Pty Ltd and Bledisloe Australia Pty Ltd became parties to this Deed of Cross Guarantee. By entering into the deed, the wholly-owned subsidiaries have been relieved from the requirement to prepare a Financial Report and Directors' Report under ASIC Corporations Instrument 2016/785 issued by the Australian Securities & Investments Commission.

The above companies represent a "Closed Group" for the purposes of the ASIC Corporations Instrument, and as there are no other parties to the Deed of Cross Guarantee that are controlled by InvoCare Limited, they also represent the "Extended Closed Group".

Set out below is a consolidated statement of comprehensive income, summary of movements in consolidated retained profits and consolidated balance sheet for the year ended 31 December 2019 of the Closed Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – OTHER STATUTORY DISCLOSURES

A. Consolidated statement of comprehensive income of the Closed Group

	2019 $'000	2018 $'000
Revenue from continuing operations	**400,261**	387,932
Finished goods and consumables used	**(95,930)**	(97,826)
Employee benefits expense	**(132,503)**	(132,071)
Advertising and public relations expenses	**(9,106)**	(9,180)
Occupancy and facilities expenses	**(14,741)**	(24,213)
Motor vehicle expenses	**(7,066)**	(7,242)
Technology	**(10,795)**	(9,424)
Other expenses	**(11,087)**	(12,226)
	119,033	95,750
Depreciation, impairment and amortisation expenses	**(29,176)**	(20,310)
Finance costs	**(17,959)**	(13,651)
Interest income	**1,092**	1,258
Net gain/(loss) on undelivered prepaid contracts	**45,550**	(4,992)
Acquisition related costs	**(1,984)**	(2,942)
Inter-segment revenue	**1,810**	2,789
Net gain/(loss) on disposal of non-current assets	**2,189**	260
Profit before income tax	**120,555**	58,162
Income tax expense	**(29,827)**	(14,000)
Profit after income tax for the year	**90,728**	44,162
Other comprehensive income		
Items that may be reclassified to profit and loss		
Changes in fair value of cash flow hedges, net of tax	**(1,055)**	(36)
Changes in foreign currency translation reserve, net of tax	**(1,248)**	(2,856)
Other comprehensive income for the year, net of tax	**(2,303)**	(2,892)
Total comprehensive income for the year, net of tax	**88,425**	41,270

B. Summary of movements in consolidated retained profits of the Closed Group

	2019 $'000	2018 $'000
Retained profits as at 1 January	**144,401**	147,020
Profit after income tax for the year	**90,728**	44,162
Dividends paid	**(41,928)**	(46,781)
Retained profits as at 31 December	**193,201**	144,401

C. Consolidated balance sheet of the Closed Group

		2019 $'000	2018 $'000
Current assets	Cash and cash equivalents	**7,920**	6,937
	Trade receivables	**35,172**	54,016
	Other receivables	**7,576**	6,943
	Inventories	**47,137**	41,889
	Prepaid contract funds under management	**57,551**	45,986
	Asset held for sale	**3,981**	3,324
	Deferred selling costs	**4,481**	3,102
	Total current assets	**163,818**	162,197
Non-current assets	Other receivables	**62,132**	13,697
	Shares in subsidiaries	**246,778**	233,139
	Property, plant and equipment	**353,630**	329,322
	Right of use asset	**121,784**	-
	Prepaid contract funds under management	**561,837**	517,601
	Intangible assets	**43,682**	34,648
	Deferred selling costs	**14,201**	17,849
	Total non-current assets	**1,404,044**	1,146,256
	Total assets	**1,567,862**	1,308,453
Current liabilities	Trade and other payables	**52,865**	50,641
	Lease liabilities	**11,418**	-
	Derivative financial instruments	**735**	101
	Current tax liabilities	**-**	318
	Prepaid contract liabilities	**48,715**	41,242
	Deferred revenue	**34,909**	23,340
	Provision for employee benefits	**13,626**	13,192
	Total current liabilities	**162,268**	128,834
Non-current liabilities	Trade and other payables	**800**	-
	Borrowings	**295,228**	337,084
	Lease liabilities	**114,632**	-
	Derivative financial instruments	**2,088**	1,216
	Deferred tax liabilities	**35,766**	23,179
	Prepaid contract liabilities	**476,498**	468,616
	Deferred revenue	**69,579**	83,204
	Provision for employee benefits	**5,528**	4,837
	Total non-current liabilities	**1,000,119**	918,136
	Total liabilities	**1,162,387**	1,046,970
	Net assets	**405,475**	261,483
Equity	Contributed equity	**219,826**	124,140
	Reserves	**(7,552)**	(7,058)
	Retained profits	**193,201**	144,401
	Total equity	**405,475**	261,483

NOTE 24. Economic dependence

The parent entity depends on dividend and interest income from, and management fees charged to, its subsidiaries to source the payment of future dividends and fund its operating costs and debt service obligations as borrower under the bank loan facility agreements. The parent entity's financial position is sound, notwithstanding a net current liability situation being shown in the balance sheet. Adequate cash resources are available to enable it to meet its obligations as and when they fall due, through either drawing on unused finance facilities, which at the reporting date amounted to $96,741,000 as outlined in Note 13.E., or by on-demand repayment of intercompany advances.

NOTE 25. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, InvoCare Limited, its related practices and non-related audit firms.

A. Audit services	2019 $	2018 $
PricewaterhouseCoopers – Australian firm		
Audit and review of financial reports	**450,621**	416,000
PricewaterhouseCoopers – non-Australian firm		
Audit and review of financial reports	**24,788**	25,735
Non-PricewaterhouseCoopers – Singaporean firm		
Audit and review of financial reports	**32,743**	29,940
Total remuneration for audit services	**508,152**	471,675

B. Non-audit services	2019 $	2018 $
PricewaterhouseCoopers – Australian firm		
Assurance services	**29,050**	25,500
Taxation services	**58,500**	125,229
Other Services	**7,250**	67,692
PricewaterhouseCoopers – non-Australian firm		
Taxation services	**35,687**	131,847
Other services	**-**	2,858
Non-PricewaterhouseCoopers – Singaporean firm		
Other services	**12,389**	14,210
Total remuneration for non-audit services	**142,876**	367,336

It is the Company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important and auditor independence is not compromised. These assignments are principally tax advice and advisory services, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Company's policy to seek competitive tenders for any major consulting projects.

NOTE 26. Other accounting policies

A. New or amended accounting standards and interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

AASB 16 Leases is the most relevant to the Group, the financial impact and additional disclosures required are provided in Note 11.B.

B. Other accounting policies applicable

I. Foreign currency translation

a. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is InvoCare Limited's functional and presentation currency.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

II. Inventories

Inventories comprising of funeral merchandise and memorialisation property items in the Cemeteries and Crematoria business, primarily held for the purpose of trading, are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months, and are classified as current.

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, a proportion of variable and fixed overhead. Costs are assigned to individual items of inventory predominantly on the basis of weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

III. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which had not been settled at balance date. The amounts are unsecured and are usually paid within 60 days of recognition.

IV. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

V. Derivative financial instruments

The Group uses derivative financial instruments, interest rate swaps, to hedge its risks associated with exchange and interest rate fluctuations. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the risks associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- Hedges of a net investment in a foreign operation

The Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows or hedged items.

The fair value of interest rate swap contracts is calculated as the present value of the estimated future cash flows. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – OTHER STATUTORY DISCLOSURES

Hedges that meet the criteria for hedge accounting are accounted for as follows.

a. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within finance costs.

Amounts accumulated in equity are recycled in the statement of comprehensive income within finance costs in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

b. Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement.

VI. Employee benefits

a. Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12-months of the reporting date are recognised in other payables and provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled, including appropriate on-costs.

b. Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including appropriate on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

c. Bonus plans

The Group recognises a liability in other payables and an expense for bonus plans when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- There are formal terms in the plan for determining the amount of the benefit
- The amounts to be paid are determined before the time of completion of the financial report
- Past practices give clear evidence of a constructive obligation

VII. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

New Conceptual Framework for Financial Reporting

A revised Conceptual Framework for Financial Reporting has been issued by the AASB and is applicable to InvoCare Limited for annual reporting periods beginning on or after 1 January 2020. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework, is also applicable from 1 January 2020, includes such amendments. The Group refers to the Framework as a source of guidance in developing and applying an accounting policy if there is no accounting standard or interpretation dealing with an accounting issue. Where the Group has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the Group may need to revisit such policies.

The Group will apply the revised conceptual framework from 1 January 2020 and is yet to assess its impact.

INVOCARE LIMITED AND CONTROLLED ENTITIES – DIRECTORS' DECLARATION

In the directors' opinion:

a. The financial statements and Notes 1 to 26 are in accordance with the Corporations Act 2001, including:

- **i.** Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
- **ii.** Giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2019 and of their performance for the financial year ended on that date

b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

c. At the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 23

Basis of preparation on page 72 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.

Bart Vogel
Director

Martin Earp
Director

Sydney
26 February 2020

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report

To the members of InvoCare Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of InvoCare Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall Group materiality of $6.0 million, which represents approximately 5% of the Group's profit before tax adjusted for impairment. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We adjusted for impairment as it is an infrequently occurring item impacting the statement of comprehensive income. • We selected 5% which is within the range of acceptable quantitative profit related materiality thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group comprises businesses operating predominately in Australia, New Zealand and Singapore with the most financially significant operations being Australia. • We conducted an audit of the financial information of the Australian operation given its financial significance to the Group. • We performed specific risk-focused audit procedures over those operations.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Estimated recoverable amount of goodwill for the New Zealand operation – Accounting for prepaid funeral contracts • These are further described in the *Key audit matters* section of our report.

INDEPENDENT AUDITOR'S REPORT

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Estimated recoverable amount of goodwill for the New Zealand operation *Refer to note 12.* Under Australian Accounting Standards, the Group is required to test goodwill and indefinite lived intangible assets annually for impairment, irrespective of whether there are indications of impairment. This assessment is inherently complex and judgemental as the Group is required to: • forecast the operational cash flows of the cash generating units of the Group • determine discount rates and terminal value growth rates which are used in the discounted cash flow model used to assess impairment (the model). The Group recognised a $24.4 million goodwill impairment charge relating to New Zealand operation in the year ended 31 December 2019 . We considered this a key audit matter because significant judgement is required by the Group in estimating the recoverable amount of goodwill relating to New Zealand operation.	We focused our efforts on developing an understanding and testing the overall calculation and methodology of the Group's impairment assessment, including identification of the cash generating unit for the purpose of impairment testing, and the attribution of net assets, revenues and costs to the New Zealand cash generating unit. In obtaining sufficient audit evidence, our procedures included, amongst others: • comparing the cash flow forecasts to the Group's approved long term plan • assessing the Group's historical ability to forecast future cash flows by comparing budgets with reported actual results for the past year • testing the mathematical calculations within the models • comparing the terminal value growth rate applied in the model to external information sources • performing sensitivity analysis over the discount rate and terminal value growth rate used in the model • assessing the related financial statement disclosures for consistency with Australian Accounting Standards requirements.
Accounting for prepaid funeral contracts *Refer to note 10.* The Group enters into prepaid funeral contracts whereby they agree to deliver a specified funeral, cremation or burial service at the time of need. The beneficiary invests the current price of the service to be delivered with a financial institution and conditionally assigns the benefit to the Group. For each prepaid funeral contract, the Group records an asset for the value of the funds invested (funds under management) and a liability to deliver the services.	For the asset value invested, we performed the following procedures amongst others: • agreed a sample of balances recorded by the Group to statements and confirmations received from independent custodians • tested the valuation of the invested funds under management by comparing a sample of underlying investments to relevant market pricing data and custodian confirmations.

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Key audit matter	*How our audit addressed the key audit matter*
As at 31 December 2019, the Group had recorded $619.4 million of funds under management and $525.4 million of contract liabilities. We considered prepaid funeral contracts to be a key audit matter due to the: • size of the asset and liability balances • significant financing component within the contracts, as a result of significant time differences that may arise between receipt of cash from customers and the subsequent recognition of revenue on the delivery of services (redemption date).	For the liability recognised, we performed the following procedures amongst others: • tested the mathematical accuracy of the significant financing component within the prepaid funeral contracts • compared the date and value of a sample of new contracts to that recorded by the Group • selected a sample of redeemed contracts (recognised revenue) to assess whether the Group's performance obligation under the prepaid funeral contracts had been satisfied. This included comparing the relevant original contracts to service delivery documents.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

pwc

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 37 to 57 of the directors' report for the year ended 31 December 2019.

In our opinion, the remuneration report of InvoCare Limited for the year ended 31 December 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Michelle Chiang

MW Chiang
Partner

Sydney
26 February 2020

SHAREHOLDER INFORMATION

As at 12 March 2020

The following information is presented in compliance with ASX Listing Rules 4.10 (as relevant). The information is current as at 12 March 2020.

1. Securities on issue

Shares and options as at 12 March 2020	Number
Ordinary shares on issue	117,184,787
Unquoted options on issue	2,186,790

2. Distribution of quoted ordinary shares and small holdings

Range	Fully paid ordinary shares	%	Number of holders
100,001 and over	61,746,872	52.70%	40
10,001 to 100,000	15,893,596	13.56%	741
5,001 to 10,000	10,943,831	9.34%	1,528
1,001 to 5,000	23,324,997	19.90%	10,044
1 to 1,000	5,275,491	4.50%	11,684
Total	**117,184,787**	**100.00%**	**24,037**
Unmarketable Parcels	**8,728**		**496**

3. Top 20 registered shareholders

Name	Number of shares	Percentage %
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,789,500	18.59%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	8,653,417	7.38%
CITICORP NOMINEES PTY LIMITED	4,492,680	3.83%
NATIONAL NOMINEES LIMITED	2,816,031	2.40%
ARGO INVESTMENTS LIMITED	2,315,252	1.98%
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	2,119,642	1.81%
MILTON CORPORATION LIMITED	1,950,914	1.66%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,795,017	1.53%
BKI INVESTMENT COMPANY LIMITED	1,638,974	1.40%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,491,453	1.27%
AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED	1,200,000	1.02%
SOLIUM NOMINEES (AUSTRALIA) PTY LTD <ESP UNALLOCATED A/C>	1,082,265	0.92%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	1,077,227	0.92%
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	971,535	0.83%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	963,751	0.82%
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	775,992	0.66%
MIRRABOOKA INVESTMENTS LIMITED	650,000	0.55%
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	603,586	0.52%
SCJ PTY LTD <JERMYN FAMILY ACCOUNT>	500,000	0.43%
WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	428,952	0.37%
Total for top 20	57,316,188	48.89%

SHAREHOLDER INFORMATION

As at 12 March 2020

4. Substantial shareholders

The share balances in this table are extracted from substantial shareholder notices received by the Company.

Shareholders	Number of shares	Voting power	Date of last notice
Vanguard Group (The Vanguard Group, Inc. and some of its controlled entities)	5,854,408	5.01%	5 September 2019

5. Voting rights

Fully paid ordinary shares	On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll shall have one vote for each share represented.
Unquoted options	No voting rights apply unless and until the unquoted options are converted to fully paid ordinary shares.

GLOSSARY

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACCC	Australian Competition & Consumer Commission
AIFRS	The Australian equivalents to International Financial Reporting Standards for annual reporting periods beginning on or after 1 January 2005
ASX	Australian Securities Exchange which is the operating brand of ASX Limited
ASX Corporate Governance Principles and Recommendations	The eight essential corporate governance principles and best practice recommendations of the ASX Corporate Governance Council 3rd Edition 2014
Cemetery	A place for burials and memorialisation
CGU	A cash-generating unit which is the smallest identifiable group of assets that independently generates cash inflows
Condolence Lounge	A facility for family and friends to gather at after the funeral service – usually offering a catering service
Constitution	The Constitution of the Company
Crematorium	A place for cremations and memorialisation
Crypts	Above ground burial facilities
DRP	Dividend Reinvestment Plan
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
Funeral arrangement	The process in which the funeral service is planned and necessary documentation prepared
Funeral home	The InvoCare location where a funeral can be arranged and where some services can be conducted
Memorial or Memorialisation	The physical marker or tribute to the life of the deceased
Memorial park	An InvoCare location offering cremation, burial and memorialisation services
Non-operating earnings before tax	Earnings from the net gain/(loss) on prepaid contracts, asset sales gains/(losses), commissions received, less costs associated with the administration prepaid contracts, share of profits attributable to non-controlling interests and any other unusual items as disclosed in the relevant reconciliations
Operating earnings	Earnings before the net/gain(loss) on prepaid contracts, asset sales gains/(losses), commissions received, costs associated with the administration of prepaid contracts, share of profits attributable to non-controlling interests and any other unusual items as disclosed in the relevant reconciliations
Operating sales revenue	Sales revenue from external customers adjusted to remove the impact of prepaid contract redemptions
PCP	Prior comparative period
Prepaid cemetery and crematorium services	Cemetery and crematorium services that have been arranged and paid for in advance
Prepaid funeral fund	The fund where prepaid funeral monies are held in trust until the funeral service is provided
Underlying earnings	Operating earnings exclude the financial impact of AASB 15, being the unwind of deferred revenue on the prepaid contract at the time of transition and AASB16 (2019 only)
Volume	A term that refers to the number of funeral services, burials and cremations performed
VWAP	Volume Weighted Average Price a trading benchmark used to determine the face value of an InvoCare share. VWAP is calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day

CORPORATE DIRECTORY

InvoCare Limited	ABN 42 096 437 393
Directors	**Bart Vogel** Chairman **Martin Earp** Managing Director and Chief Executive Officer **Richard Davis** Non-Executive Director **Jackie McArthur** Non-Executive Director **Megan Quinn** Non-Executive Director **Keith Skinner** Non-Executive Director **Robyn Stubbs** Non-Executive Director
Company Secretary	**Heidi Aldred**
Registered Office	Level 2, 40 Miller Street North Sydney NSW 2060 Telephone: 02 9978 5200 Facsimile: 02 9978 5299 www.invocare.com.au
Share Registry	**Link Market Services Limited** Level 12, 680 George Street Sydney NSW 2000 Toll free: 1300 854 911 Facsimile: 02 9287 0303
Stock Exchange Listing	InvoCare Limited is a company limited by shares that is incorporated and domiciled in Australia. InvoCare Limited's shares are listed on the Australian Securities Exchange only. ASX code is **IVC**.
Auditors	**PricewaterhouseCoopers** One International Towers Sydney Watermans Quay, Barangaroo Sydney NSW 2000
Solicitors	**Addisons Lawyers** Level 12, 60 Carrington Street Sydney NSW 2000
	Anthony Harper Lawyers Level 6, Chorus House 66 Wyndham Street Auckland New Zealand

Financiers	**Australia and New Zealand Banking Group Limited** 242 Pitt Street Sydney NSW 2000
	ANZ Bank New Zealand Limited ANZ Centre 23–29 Albert Street Auckland New Zealand
	HSBC Bank Australia Limited Tower 1 - International Towers Sydney 100 Barangaroo Avenue Sydney NSW 2000
	The Hongkong and Shanghai Banking Corporation 1 Queen Street Auckland New Zealand
	MetLife Investment Advisors, LLC One MetLife Way Whippany, New Jersey USA 07981
	Mizuho Bank, Ltd. 60 Margaret Street Sydney NSW 2000
	Sumitomo Mitsui Banking Corporation 2 Chifley Square Sydney NSW 2000
	Westpac Banking Corporation 275 Kent Street Sydney NSW 2000
	Westpac New Zealand Limited 16 Takutai Square Auckland New Zealand

Lake Macquarie Memorial Park, NSW

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