InvoCare Limited and Controlled Entities

Annual Financial Report

For the financial year ended 31 December 2016

Contents

The financial report covers the consolidated financial statements for the consolidated entity consisting of InvoCare Limited and its subsidiaries. The financial report is presented in Australian currency.

InvoCare Limited (ABN 42 096 437 393) is a 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 consolidated entity's operations and its principal activities is included in the Directors' Report.

The financial report was authorised for issue by the directors on 23 February 2017. The Company has power to amend and reissue the financial report.

Through the use of the internet, InvoCare ensures corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available on the Company's website: www.invocare.com.au

The directors submit their report on the consolidated entity consisting of InvoCare Limited (the "Company") and the entities it controlled at 31 December 2016. InvoCare Limited and its controlled entities together are referred to as "InvoCare", the "Group" or the "consolidated entity" in this Directors' Report.

Directors

The following persons were directors of InvoCare Limited during the whole of the financial year and until the date of this report:

Richard Fisher (Chairman)

Martin Earp

Christine Clifton

Richard Davis

Joycelyn Morton

Gary Stead

Robyn Stubbs was appointed as an independent Non-executive Director on 1 January 2017 and is a Director at the date of this report.

Principal activities

The Group is the leading provider of services in the funeral industry in Australia, New Zealand and Singapore with smaller operations in Hong Kong and the USA. Other than disclosed in this report there were no significant changes in the nature of these activities during the year.

Significant changes in the state of affairs

There have been no significant changes in the state of the Group's affairs during the financial year.

Operating results

The operating earnings after tax for the year was $55,233,000 (2015: $49,366,000) as reconciled on page 2. The consolidated after tax profit of the Group attributable to shareholders was $70,949,000 (2015: $54,844,000). More detailed information is included in the operating and financial review set out in the report.

Dividends

The Directors have recommended a final, fully franked dividend of 25.50 cents per share payable on 7 April 2017. Total full year dividends are 42.50 cents, being 4.50 cents or 11.8% higher than 2015. The full year dividend payout ratio is 85% (2015: 85%) of operating earnings after tax.

Dividends to ordinary shareholders of the Company have been paid or recommended as follows:

	2016 $'000	2015 $'000
Interim ordinary dividend of 17.00 cents (2015: 15.75 cents) per fully paid share paid on 7 October 2016	**18,706**	17,330
Final ordinary dividend of 25.50 cents (2015: 22.25 cents) per fully paid share has been recommended by directors on 23 February 2017 to be paid on 7 April 2017	**28,058**	24,482
Total ordinary dividends of 42.50 cents (2015: 38.0 cents)	**46,764**	41,812

All dividends are fully franked at the company tax rate of 30%.

The Dividend Reinvestment Plan ("DRP") was available for the 2016 interim dividend and $16,842,000 (2015: $14,855,000) was paid in cash and $1,863,000 (2015: $2,475,000) through the issue of 134,327 (2015: 226,049) shares purchased on market at $13.87 (2015: $10.95) per share via the DRP. The shortfall in the DRP take-up was not underwritten in 2016 and shares were not issued at a discount. The DRP will apply to the final 2016 dividend which is not being underwritten and no discount to the market price will apply.

Operating and Financial Review

Result highlights:	2016 $'000	2015 $'000	Change $'000's	Change %
Total sales to external customers	**450,659**	436,371	14,288	3.3%
Other revenue	10,175	9,570	605	6.3%
Operating expenses (i)	(348,555)	(340,515)	(8,040)	(2.4%)
Operating EBITDA (i)	**112,279**	105,426	6,853	6.5%
Operating margin	*24.9%*	*24.2%*		*0.8%*
Depreciation and amortisation	(21,335)	(20,180)	(1,155)	(5.7%)
Finance costs	(13,555)	(14,786)	1,231	8.3%
Interest income	964	722	242	33.5%
Business acquisitions costs	(79)	(70)	(9)	(12.9%)
Operating earnings before tax (i)	**78,274**	71,112	7,162	10.1%
Income tax on operating earnings (i)	(23,041)	(21,746)	(1,295)	(6.0%)
Effective tax rate	*29.4%*	*30.6%*		*(1.2%)*
Operating earnings after tax (i)	**55,233**	49,366	5,867	11.9%
Operating earnings per share (i)	*50.4 cents*	*45.1 cents*	*5.3 cents*	*11.8%*
Net gain on undelivered prepaid contracts after tax (i)	16,050	5,269	10,781	
Asset sales losses after tax (i)	(124)	(6)	(118)	
Impairment (loss)/gain after tax (i)	(111)	340	(451)	
Non-controlling interest	(99)	(125)	26	
Net profit after tax attributable to ordinary equity holders of InvoCare	**70,949**	54,844	16,105	29.4%
Basic earnings per share	64.7 cents	50.1 cents	14.6 cents	29.1%
Diluted earnings per share	64.6 cents	50.1 cents	14.5 cents	28.9%
Interim ordinary dividend per share	17.00 cents	15.75 cents	1.25 cents	7.9%
Final ordinary dividend per share	25.50 cents	22.25 cents	3.25 cents	14.6%
Total ordinary dividend per share	42.50 cents	38.00 cents	4.50 cents	11.8%

(i) Non-IFRS financial information.

Operating EBITDA and operating 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 non-cash and significant items. The table above summarises the key reconciling items between net profit after tax attributable to InvoCare shareholders and operating EBITDA and operating earnings before and after tax. The operating EBITDA and operating earnings before and after tax information included in the table above has not been subject to any specific audit or review procedures by our auditor but has been extracted from the accompanying financial report.

Business model

InvoCare's business model is based upon earnings growth from the following pillars:

- Annual sales revenue growth from:
  - Ageing population trends with an approximate 1% annual increase in deaths;
  - Consistent annual 3-4% pricing increments;
  - Market share improvements, including new funeral locations, generating 1% revenue growth;
- Prepaid contracts providing families emotional and financial peace of mind as well as securing future market share for InvoCare;
- Business acquisitions, which have contributed more than half of InvoCare's compound annual sales growth since listing; and
- Operating leverage improvement, through delivery of revenue growth pillars and cost control so that annual EBITDA growth is greater than annual sales growth.

Most pillars contributed positively to 2016 results as depicted in the following table. More detail is provided throughout this report, including in the Outlook section on page 14.

Favourable demographics	✓
Pricing / average contract values	✓
Market share improvements	✗
Prepaid contracts	✓
New locations/business acquisitions	-
Operating leverage improvement	✓

Results overview

Comparable business operating earnings after tax for 2016 was up by 9.6% or $5.1 million to $53.6 million on 2015.

Including the start-up USA operations and acquisitions in New Zealand, operating earnings after tax for the total Group was up by 11.9% or $5.8 million to $55.2 million (2015: $49.4 million).

Statutory reported profit after tax for the comparable business was up 26.1% or $15.4 million to $74.5 million (2015: $59.1 million). The total Group reported profit after tax was up 29.4% or $16.1 million to $70.9 million (2015: $54.8 million). Reported after tax profits were impacted by increased gains on undelivered prepaid contract than the previous year.

Total Group sales revenue was up 3.3% or $14.3 million to $450.7 million (2015: $436.4 million). The increase was due to a combination of higher average contract values, increased memorialisation sales in the cemeteries and crematoria, contributions from new businesses and favourable currency movements.

Overall numbers of deaths in InvoCare's core markets increased by approximately 0.8% compared to 2015. Small market share losses were detected in most markets owing to significant competition from smaller operators.

Comparable Group EBITDA was up $5.7 million or 5.2% to $114.9 million (2015: $108.8 million). The foreshadowed negative EBITDA for the start-up USA operation of USD2.3 million (or AUD3.1 million), offset by $0.5 million from acquisitions, resulted in total Group EBITDA increasing by 6.5% or $6.9 million to $112.3 million (2015: $105.4 million).

As a percentage of sales, comparable EBITDA margins improved from 25.1% in 2015 to 25.7% in 2016. Most of this improvement occurred in the second half where margins rose from 27.3% in 2015 to 28.1%. By comparison, first half margins increased 0.3% from 22.7% in 2015 to 23.0%.

Cash flows remained strong for the year. Ungeared, tax free operating cash flow was 104% of EBITDA (2015: 97%), underpinning the ability to pay a fully franked final dividend of 25.50 cents per share, which is 3.25 cents up on last year. This is in addition to the 17.00 cent interim dividend paid in October 2016, taking total dividends declared for the year to 42.50 cents (2015: 38.0 cents).

Sales, EBITDA, margins and major profit & loss line items

The following table summarises sales revenue, EBITDA and margins by country segments.

	1H16 $'000	1H15 $'000	Var %	2H16 $'000	2H15 $'000	Var %	FY16 $'000	FY15 $'000	Var %
Sales Revenue									
Australia	**184,581**	178,124	3.6%	**202,745**	196,234	3.3%	**387,326**	374,358	3.5%
New Zealand	**20,050**	21,326	(6.0%)	**23,021**	22,665	1.6%	**43,071**	43,991	(2.1%)
Singapore	**8,386**	8,169	2.7%	**8,850**	8,356	5.9%	**17,236**	16,525	4.3%
Comparable business	**213,017**	207,619	2.6%	**234,616**	227,255	3.2%	**447,633**	434,874	2.9%
USA & Acquisitions	**1,492**	498		**1,534**	999		**3,026**	1,497	
Total	**214,509**	208,117	3.1%	**236,150**	228,254	3.5%	**450,659**	436,371	3.3%
EBITDA									
Australia	**41,617**	40,029	4.0%	**56,635**	52,610	7.7%	**98,252**	92,639	6.1%
New Zealand	**3,464**	3,144	10.2%	**4,977**	5,377	(7.4%)	**8,441**	8,521	(0.9%)
Singapore	**3,899**	3,909	(0.3%)	**4,257**	4,062	4.8%	**8,156**	7,971	2.3%
Comparable business	**48,980**	47,082	4.0%	**65,869**	62,049	6.2%	**114,849**	109,131	5.2%
USA & Acquisitions	**(1,708)**	(1,907)		**(862)**	(1,798)		**(2,570)**	(3,705)	
Total	**47,272**	45,175	4.6%	**65,007**	60,251	7.9%	**112,279**	105,426	6.5%
Margin on sales									
Australia	**22.5%**	22.5%	-	**27.9%**	26.8%	1.1%	**25.4%**	24.7%	0.7%
New Zealand	**17.3%**	14.7%	2.6%	**21.2%**	23.7%	(2.5%)	**19.4%**	19.4%	-
Singapore	**46.5%**	47.9%	(1.4%)	**48.1%**	48.6%	(0.5%)	**47.3%**	48.2%	(0.9%)
Comparable business	**23.0%**	22.7%	0.3%	**28.1%**	27.3%	0.8%	**25.7%**	25.1%	0.6%
USA & Acquisitions									
Total	**22.0%**	21.7%	0.3%	**27.5%**	26.4%	1.1%	**24.9%**	24.2%	0.7%

The following table shows the EBITDA performance of the business by halves, discussed in the following sections of the report.

	1 H16 $'000	1 H15 $'000	Var %	2 H16 $'000	2 H15 $'000	Var %	FY 16 $'000	FY 15 $'000	Var %
Total - all lines of business									
Sales Revenue	**214,509**	**208,117**	**3.1%**	**236,150**	**228,254**	**3.5%**	**450,659**	**436,371**	**3.3%**
Other revenue	4,787	3,792	26.2%	5,388	5,778	(6.7%)	10,175	9,570	6.3%
Expenses:									
Cost of goods sold	(60,011)	(60,347)	0.6%	(67,014)	(65,098)	(2.9%)	(127,025)	(125,445)	(1.3%)
Personnel	(75,263)	(69,685)	(8.0%)	(75,495)	(72,646)	(3.9%)	(150,758)	(142,331)	(5.9%)
Advertising & promotions	(8,731)	(8,497)	(2.8%)	(7,799)	(8,218)	5.1%	(16,530)	(16,715)	1.1%
Occupancy & facility expenses	(14,325)	(14,236)	(0.6%)	(14,129)	(13,919)	(1.5%)	(28,454)	(28,155)	(1.1%)
Motor vehicle expenses	(3,785)	(4,159)	9.0%	(4,096)	(4,665)	12.2%	(7,881)	(8,824)	10.7%
Other expenses	(9,909)	(9,810)	(1.0%)	(7,998)	(9,235)	13.4%	(17,907)	(19,045)	6.0%
Operating expenses	(172,024)	(166,734)	(3.2%)	(176,531)	(173,781)	(1.6%)	(348,555)	(340,515)	(2.4%)
Operating EBITDA	**47,272**	**45,175**	**4.6%**	**65,007**	**60,251**	**7.9%**	**112,279**	**105,426**	**6.5%**
Operating margin %	*22.0%*	*21.7%*	*0.3%*	*27.5%*	*26.4%*	*1.1%*	*24.9%*	*24.2%*	*0.8%*

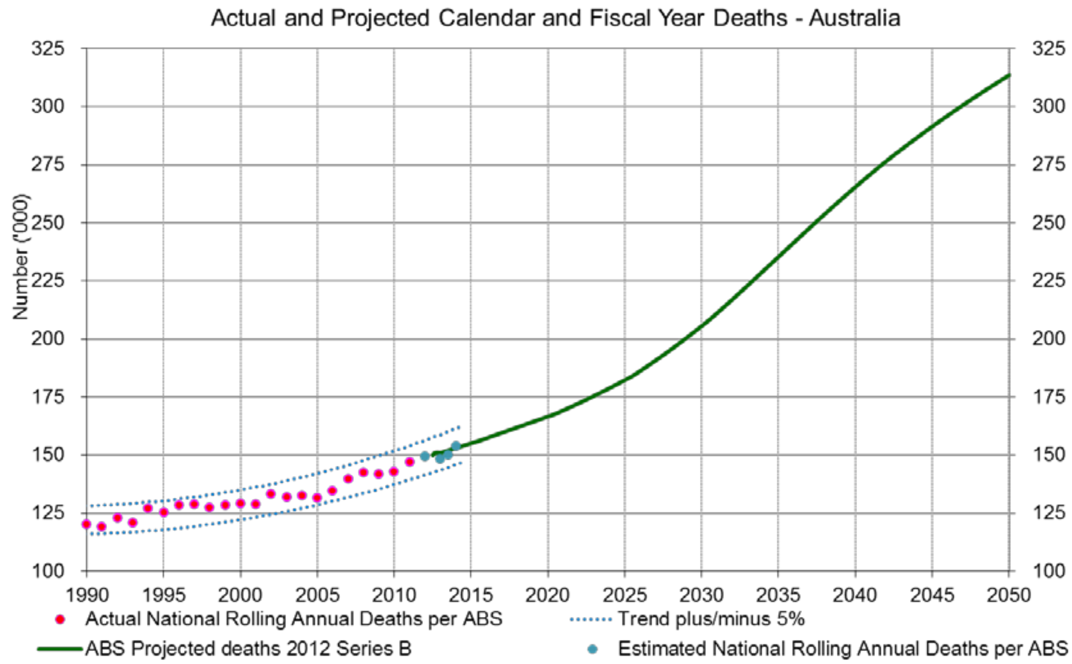
A summary of the comparable business operating EBITDA by major income statement line item by halves is presented in the following table.

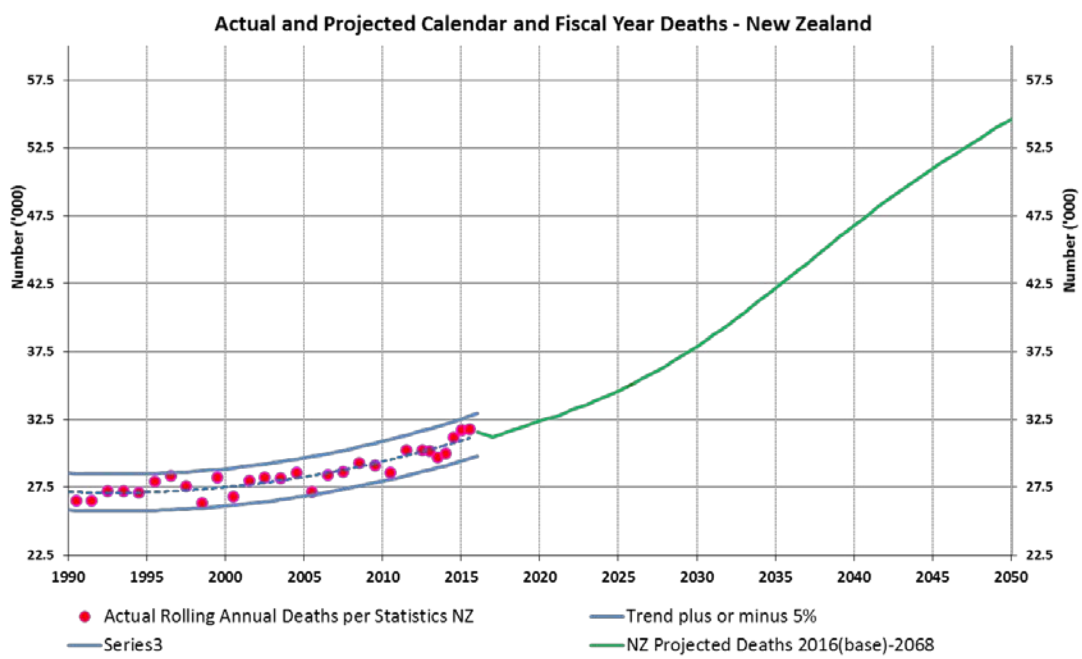
	1 H16 $'000	1 H15 $'000	Var %	2 H16 $'000	2 H15 $'000	Var %	FY 16 $'000	FY 15 $'000	Var %
Total - all lines of business									
Sales Revenue	**213,017**	**207,619**	**2.6%**	**234,616**	**227,254**	**3.2%**	**447,633**	**434,873**	**2.9%**
Other revenue	4,712	3,779	24.7%	4,996	5,721	(12.7%)	9,708	9,500	2.2%
Expenses:									
Cost of goods sold	(60,065)	(60,251)	0.3%	(67,142)	(65,288)	(2.8%)	(127,207)	(125,539)	(1.3%)
Personnel	(73,777)	(68,413)	(7.8%)	(74,050)	(71,368)	(3.8%)	(147,827)	(139,781)	(5.8%)
Advertising & promotions	(7,640)	(7,828)	2.4%	(7,049)	(7,123)	1.0%	(14,689)	(14,951)	1.8%
Occupancy & facility expenses	(14,113)	(14,163)	0.4%	(13,907)	(13,728)	(1.3%)	(28,020)	(27,891)	(0.5%)
Motor vehicle expenses	(3,676)	(4,114)	10.6%	(4,014)	(4,592)	12.6%	(7,690)	(8,706)	11.7%
Other expenses	(9,478)	(9,547)	0.7%	(7,581)	(8,826)	14.1%	(17,059)	(18,373)	7.2%
Operating expenses	(168,749)	(164,316)	(2.7%)	(173,743)	(170,925)	(1.6%)	(342,492)	(335,241)	(2.2%)
Operating EBITDA	**48,980**	**47,082**	**4.0%**	**65,869**	**62,050**	**6.2%**	**114,849**	**109,132**	**5.2%**
Operating margin %	*23.0%*	*22.7%*	*0.3%*	*28.1%*	*27.3%*	*0.8%*	*25.7%*	*25.1%*	*0.6%*

Number of deaths and cases

The number of deaths continues to be a very significant driver of InvoCare's performance. The ageing of the population in InvoCare's markets and the long-term trend of increasing numbers of deaths are major pillars of growth for the Group. However, short-term fluctuations in the numbers of deaths do occur such that in any year the number can be up to 5% above or below the trend line, as shown in the following graphs for both Australia and New Zealand.

The Australian graph incorporates the most recent long-term death projections released in November 2013 by the Australian Bureau of Statistics. Projections for New Zealand have been sourced from the latest data supplied by Statistics New Zealand.





The table below illustrates the trends in InvoCare's funeral case volumes over the last 24 months, clearly demonstrating how the volumes have changed from period to period.

	2016 vs 2015			2015 vs 2014		
	Half 1	Half 2	Full Year	Half 1	Half 2	Full Year
Australia	(1.6%)	(1.8%)	(1.7%)	2.4%	0.9%	1.6%
New Zealand	(4.3%)	(4.5%)	(4.3%)	3.0%	(1.2%)	0.7%
Singapore	(9.0%)	(2.7%)	(5.5%)	4.8%	7.4%	6.0%
Total comparable business	(2.2%)	(2.2%)	(2.2%)	2.5%	0.8%	1.6%
Total Group (incl. USA & acqns)	(1.2%)	(1.5%)	(1.4%)	3.6%	2.2%	2.8%

Comparable businesses in the table comprise a different mix in 2016 from 2015. The 2015 percentages are as presented in the FY2015 results presentation.

Commentary on the period since 31 December 2016 is set out in the Outlook section on page 14.

Sales

Key components of the comparable sales movements are summarised below:

- Australian funeral sales increased 1.5% or $4.3 million to $301.8 million (2015: $297.5 million).
  - Average revenue per funeral contract, excluding disbursements and delivered prepaid impacts, increased 4.1% (2015: 2.7%) and contributed an estimated $9.0 million to sales growth. Contributing to the average revenue were the combined effects of price increases (averaging between 3% and 4%) and strong performance in markets which have historically yielded high average revenue per contract such as Victoria.
  - The number of funeral services performed was down on the previous year by 1.7%. InvoCare's market intelligence indicates that across its overall markets the number of deaths increased by approximately 0.8%. Market share losses in Queensland, New South Wales and Western Australia were mitigated to some extent by gains made in other states. Management has been actively pursuing strategies to address market share, more details are provided in the Outlook section of this Directors' Report on page 14 .
  - The number of new prepaid funeral contracts sold for comparable Australian business increased by 24.9% on the previous year and exceeded the number of prepaid services performed by 42.0% (2015: 14.8%). Strong customer demand for prepaid funeral contracts before the new age pension entitlement rules came into effect on 1 January 2017 and an effective marketing campaign accounted for most of the increase. Prepaid funerals performed in the year were 14.3% (2015: 13.8%) of comparable at need funerals.
- Australian cemeteries and crematoria sales were up 10.1% or $9.0 million to $97.7 million (2015: $88.7 million). Services performed decreased by 2.3% in line with the case volume decrease experienced by the funeral business, price increases were similar to the funeral business and memorialisation sales were strong. The net increase in the deferred revenue pool of unconstructed memorials was approximately $2.0 million (2015: $3.4 million) taking the pool to approximately $16.9 million (2015: $14.9 million) which will be constructed and included in sales revenue in future periods. New contracts added to the pool amounted to $6.0 million (2015: $7.8 million) and the amount constructed and included in sales was $4.0 million (2015: $4.3 million). In addition, deferred revenue includes $46.5 million (2015: $44.0 million) of pre-sold plaques, ash containers and other miscellaneous items deliverable and recognisable in sales revenue at the customer's future time of need.
- Comparable New Zealand sales (in NZD) were down 3.1% or $1.5 million to $45.9 million (2015: $47.4 million). Case volumes were down 4.3% due to combination of a 3.0% decline in numbers of death and, minor, market share losses across InvoCare's market in New Zealand. Funeral case averages increased 2.5%. Case averages benefited from price increases (2-3%) at the beginning of each of January and July but were impacted by customers seeking low priced offerings and wanting less service from funeral directors. In AUD New Zealand sales were down 0.2% to $44.2 million (2015: $44.3 million) which included favourable FX movements of $0.4 million.
- Singapore funeral sales (in SGD) increased by 3.9% to $17.7 million (2015: $17.0 million). Case volume decrease of 5.5% was offset by a 9.5% increase in case averages driven by customer demand for high value funeral offerings. Majority of the case volume decrease stemmed from the low cost segment of the market where management made a strategic decision to not compete. In AUD Singapore sales increased 4.3% to $17.2 million (2015: $16.5 million) which included favourable FX movements of $0.1 million.
- Intra-group elimination of cemeteries and crematoria sales to InvoCare owned funeral homes amounted to $12.8 million (2015: $12.4 million).
- USA operations, set up in early 2015, generated revenues of US$1.4 million (A$1.9 million). Over 700 funeral cases and over 2,400 cremations were performed during the year. Funeral case averages achieved were over US$1,200 and cremation case averages achieved were over US$250. Subsequent to the balance date, a strategic decision was made to execute an orderly closure of the Group's USA funeral operations after a detailed review of its performance to date. It is expected that the closure will cost approximately $700,000.

Acquired businesses, being two cremation memorial parks in Christchurch (New Zealand) in July 2015 contributed, (in NZD), $2.2 million to sales in 2016, before the elimination on consolidation of sales of $0.9 million by the acquired Christchurch memorial parks to InvoCare owned funeral homes in Christchurch.

Other revenue

Other revenue increased by $0.6 million to $10.2 million (2015: $9.6 million). Other revenue mainly comprises administration fees upon initial sale of prepaid funeral contracts and trailing commissions on prepaid funds. The increase in 2016 was mainly attributable to higher administration fees on prepaid funeral contracts following the strong sales growth recorded in the year.

Operating expenses and EBITDA[1]

Operating expenses (excluding depreciation, amortisation, acquisition related and finance costs) for the comparable operations increased $7.2 million or 2.2% to $342.5 million. Tight cost management, particularly during the second half, resulted in the Operating EBITDA[1] to sales margin increasing to 25.7%, from 25.1% in 2015. The second half margin was 28.1%, compared to 27.3% in the second half of 2015.

Australia recorded a strong EBITDA growth with New Zealand and Singapore businesses recording a slight EBITDA decline and growth respectively. Growth in EBITDA to sales margin was achieved in Australia and New Zealand whereas Singapore business recorded a slight decline mainly due to increased marketing expense to combat strong competition.

After including expenses of the USA operation of $5.4 million and from new business acquisitions of $0.6 million, the total Group operating expenses increased by 2.4% or $8.0 million and margins improved by 0.8% to 24.9%.

Favourable FX movements benefited Operating EBITDA by $0.1 million, as the NZD and SGD strengthened against the AUD.

Depreciation and amortisation expenses

Depreciation and amortisation expenses were up $1.1 million in 2016 to $21.3 million (2015: $20.2 million). This increase included $0.4 million associated with the USA and other acquired businesses.

Finance costs

Finance costs declined by $1.2 million to $13.4 million (2015: $14.8 million). Lower interest rates and expiry of some higher fixed cost swaps were the main contributors to lower debt interest. More information about the Group's debt facilities is set out under the Capital Management section.

Acquisition related costs

Acquisition costs of $0.1 million were in line with those incurred in 2015.

Share of associate

After writing down InvoCare's investment in on-line memorial associate to $nil, equity accounting of the associates losses is no longer required. The associate, in which InvoCare has a 35% interest, continues to record losses during its start-up phase.

Undelivered prepaid contract gains

Net gains on undelivered prepaid contracts were $22.9 million (2015: $7.5 million). The current year gain comprised $39.4 million increase in the fair value of funds under management offset by $16.5 million growth in the future liability to deliver prepaid services.

The fair value uplift of $39.4 million in funds under management was $19.6 million higher than PCP due to returns on the main Guardian Fund being impacted by positive revaluations of unlisted property investments.

During the year the preneed liability was increased to progressively recognise the impact of expected price increases. This resulted in liability growth of $16.5 million which was up on last year's $12.3 million.

Please refer the accompanying financial statements for detailed Consolidated Income Statement and Consolidated Balance Sheet impact of undelivered prepaid contract performance.

Approximately 80% of InvoCare's prepaid funds under management are with the Over Fifty Guardian Friendly Society. Asset allocations for this fund remained relatively steady over the year with strong returns delivered from direct property investments. The trustees of the Guardian fund continued to evaluate asset allocation strategies that will deliver required returns with acceptable levels of risk and volatility. This may see a further shift in asset classes should the right opportunities be identified.

[1] Operating EBITDA is non-IFRS financial information.

Asset allocations, which are being closely reviewed as equity markets remain volatile, are set out below:

	31 Dec 2016 %	30 June 2016 %	31 Dec 2015 %
Equities	**13**	15	17
Property	**32**	27	26
Cash and fixed interest	**55**	58	57

Asset sales

Minor after tax gains and losses on asset sales were recorded in both 2016 and 2015.

Impairments

All of the Group's previously impaired assets, being memorial parks and the Group's investment in its associate, were assessed during 2016 and no change to the impairment provision was deemed necessary (2015: after tax impairment gain of $0.3 million).

Income tax expense

Income tax expense on reported profit was $27.8 million (2015: $26.7 million), representing an effective rate of 29.2% (2015: 32.7%). The effective rate represents a return to trend as 2014 had an effective rate of 29.3%. The major cause of the increase in 2015 was adjustments to prior periods covering a total of four years. An analysis of tax paid, based on tax residency status, for Australia and the Group is set out below.

	Australia		Group	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Profit before tax	**96,928**	82,553	**100,372**	81,715
Tax at nominal rate in relevant country	**29,078**	24,766	**29,173**	23,669
Increase / (decrease) due to non-temporary differences				
Non-deductible expenses	**139**	147	**176**	226
Foreign exempt dividends	**(837)**	(1,815)	**-**	-
Capital gains offset against previously unrecognised capital losses	**(118)**	-	**(118)**	-
Impairment of financial assets	**-**	790	**43**	790
Revenue tax losses not recognised	**-**	-	**794**	948
Other items	**-**	-	**30**	(132)
Increase / (decrease) due to temporary differences				
Depreciation and amortisation	**1,008**	1,017	**1,239**	1,343
Unrealised prepaid contract funds under management gains and losses	**(6,357)**	(1,965)	**(6,357)**	(1,965)
Accruals and creditors	**(77)**	377	**(85)**	371
Provisions	**(13)**	703	**(38)**	759
Deferred expenses	**(136)**	(254)	**(136)**	(254)
Gains / (losses) on the sale of fixed assets	**205**	(95)	**190**	(103)
Impairment of cemetery land	**-**	(1,620)	**-**	(1,620)
Other items	**367**	204	**433**	177
Income tax paid or payable	**23,259**	22,255	**25,344**	24,209
Income tax paid[1]	**24.0%**	27.0%	**25.2%**	29.6%

1. *Calculated as the total amount of income tax paid divided by the Profit before Tax.*

The governance of the tax functions of the Group have been delegated by the Board to the Audit, Risk & Compliance Committee who adopt a conservative approach when considering tax planning initiatives. Tax planning initiatives are not implemented until they receive approval from the Audit, Risk & Compliance Committee. Additionally, the committee receives a regular report on the Group's tax compliance activities.

The Group has a limited number of international related party arrangements in place. An Australian subsidiary receives dividends from Singapore Casket Company, which is resident in Singapore, and the New Zealand group is charged management fees based on time spent for management, administration, accounting and other services provided by the Australian operation.

In addition to income tax paid the Australian group pays payroll tax, $5,716,000 in 2016 (2015: $5,533,000), fringe benefits tax, $2,264,000 in 2016 (2015: $2,701,000) and land tax on owned buildings, $3,544,000 in 2016 (2015: $3,159,000), to various state governments. Council and water rates paid to various authorities totaled $1,901,000 in 2016 (2015: $1,807,000).

Cash flow highlights

	2016 $'000	2015 $'000
Net cash provided by operating activities	**78,496**	64,631
Asset sale proceeds	**4,510**	1,138
Asset purchases	**(30,321)**	(22,035)
Purchase of subsidiaries and businesses	**(1,270)**	(7,076)
Payments to funds for pre-paid contract sales	**(46,669)**	(35,338)
Receipts from funds for pre-paid contracts performed	**39,253**	37,022
Net cash used in investing activities	**(34,497)**	(26,289)
Dividends paid to InvoCare shareholders	**(43,188)**	(40,157)
Net increase in borrowings	**2,235**	70
Other movements	**(123)**	(118)
Net cash used in financing activities	**(41,076)**	(40,205)
Net increase/(decrease) in cash during year	**2,923**	(1,863)
Cash at start of year	**8,679**	10,488
Exchange rate effects	**(74)**	54
Cash at end of the year	**11,528**	8,679

The operating EBITDA conversion to cash ratio for the period was 104% which was up compared to the 97% achieved in 2015 as shown in the table below.

	2016 $'000	2015 $'000
Operating EBITDA	**112,279**	105,426
Cash provided by operating activities	**78,496**	64,631
Add finance costs	**13,233**	14,380
Add income tax paid	**25,319**	23,690
Less interest received	**(25)**	(83)
Ungeared, tax free operating cash flow	**117,023**	102,618
Proportion of operating EBITDA converted to cash	**104%**	97%

Capital expenditure related to:

	2016 $'000	2015 $'000
Property, refurbishments and facility upgrades	**11,028**	6,446
Motor vehicles	**6,832**	7,320
Information Technology	**7,504**	4,322
Other assets	**4,957**	3,947
Total capital expenditure	**30,321**	22,035

Purchase of businesses included $1.3 million deferred purchase consideration paid in relation to historical acquisitions.

Dividends paid in the year totalled $43.2 million (2015: $40.2 million), including $4.5 million (2015: $6.6 million) for the on-market purchase of shares for the dividend reinvestment plan.

There were no shares required to be purchased during 2016 and 2015 by the InvoCare Deferred Employee Share Plan Trust in connection with the long-term, share-based incentives scheme. Share grants in 2016 were made using unvested, forfeited shares from prior years' grants.

Capital management

At 31 December 2016, the Group had drawn down $235 million borrowings (from total $290 million debt facilities) compared to $252 million at 30 June 2016 and $232 million at 31 December 2015. Net debt at 31 December 2016 was $223 million which compared to the balance at 30 June 2016 of $239 million and 31 December 2015 of $223 million.

The Group has $290 million bi-lateral, multi-currency, revolver facilities which comprise five-year tranche of $170 million, maturing in December 2018, and a five-year tranche of $120 million, maturing in December 2020.

The five-year tranche maturing in December 2018 is provided in equal $42.5 million proportions by Australia and New Zealand Banking Group Limited ("ANZ"), Commonwealth Banking Group Limited ("CBA"), Westpac Banking Corporation ("Westpac") and HSBC Bank Australia Limited ("HSBC") or their New Zealand affiliates. The five-year tranche maturing in December 2020 is provided by ANZ ($45 million), CBA ($45 million) and HSBC ($30 million). The Group intends to renegotiate the tranche falling due in 2018 in the latter part of 2017.

The current facilities' drawings comprise AUD164.0 million, SGD27.0 million and NZD44.5 million. The foreign currency drawings naturally hedge investments in foreign Singapore and New Zealand markets.

Financial covenant ratios on the borrowing facilities are a Leverage Ratio (being Net Debt to EBITDA adjusted for acquisitions) which must be no greater than 3.5 and an Interest Cover Ratio (being EBITDA to net interest) which must be greater than 3.0. Both these ratios continue to be comfortably met at 31 December 2016, being 1.98:1 and 10.05:1 respectively.

To maintain certainty over cash flows, the Group has policies limiting exposure to interest rate fluctuations. In accordance with the policy, at balance date, 78% of Australia and New Zealand debt principal was covered by floating to fixed interest rate swaps. Due to the level of stability of Singapore interest rates and their quantum Singapore debt is not covered by interest rate swaps.

The overall average effective interest rate is currently 4.6% (2015: 5.4%), inclusive of fixed rates on hedged debt, floating rates on unhedged debt, margins (based on tranche tenor and leverage – currently averaging around 150bps), undrawn commitment fees and amortisation of establishment fees.

Headroom on the debt facilities of $55.0 million, and cash of $11.5 million, provide $66.5 million in available funds at 31 December 2016. This amount together with operating cash flows will provide further capacity to fund near-term growth opportunities.

Outlook

Re-Cap of 2015 Strategic Review

During 2015, the Board reviewed the Group's strategy and concluded that:

- Business fundamentals in core markets remain strong;
- Potential to drive greater operational efficiencies;
- On-going opportunities for market share improvements from existing assets;
- Opportunities for more efficient deployment of capital; and
- Acquisition opportunities still exist in Melbourne, Adelaide and Singapore.

Planning work undertaken in 2016

During 2016 the CEO and the executive team undertook detailed planning work to identify the key projects that will deliver the key strategic actions identified above. The key areas of work that have been undertaken are summarised below:

- **Customer** - detailed research into the evolving customer needs;
- **Demographics** – assessment of current and future demographics of core markets;
- **Brands** - review of both InvoCare's and Competitors brand relevance and physical product;
- **Network** - identification of optimisation opportunities (growth, disposal & consolidation);
- **Operational Efficiency** - assessment of current operations, identification of key areas of opportunities and detailed planning for projects that will deliver improvements;
- **Culture** - developed clarity on key behaviours required to deliver the strategic objective of local leadership within a strong business system framework;
- **Organisational Structure** – identification of appropriate structure to assist support the cultural objectives.

2020 Plan: Protect and Grow

The outcome of this work has been consolidated into a four year plan named "Protect and Grow" estimated to cost $200 million. The focus of this plan is to ensure that the strong operational platform developed over 20 years is maintained and improved, and that growth by acquisition is augmented by opening of new locations within existing core markets.

The Protect and Grow plan has three core programmes of work:

- N**etwork and Brand Optimisation** – refresh and enhance existing facilities to better meet the evolving needs of customers, and growth through the opening of new locations within and adjacent to the existing network.
- **People and Culture –** ensure that InvoCare provides the highest level of responsiveness to customer needs and further strengthens the culture of accountability and collaboration. In order to promote collaboration the structure of how InvoCare operates will shift to managing locations by geography rather than by brands and empowering local leaders.
- **Operational Efficiencies**. This will be driven by a major project of renewing InvoCare's business systems and operational practices. In addition InvoCare will invest in standalone operational centres that will ensure it is positioned to cope with the increased level of demand that will be driven by favourable demographics and increased market share.

The implementation is planned to be undertaken over a four year period which will allow the company to monitor the performance of the investments and make adjustments to future investments where required. It is expected that the ramp-up period for the benefits associated with these investments will be from 2018 through to 2022. The expected returns from this investment program will be consistent with what the Group has earned over previous years.

Funding the 2020 Plan

InvoCare has always maintained an extremely robust balance sheet with strong credit metrics that is managed within a strong financial framework and this will continue. Whilst the intention is to fund the $200m plan using a combination of operation cash flow and additional debt, the company will seek to maintain a shadow credit rating that is equivalent to that of Investment Grade.

The sourcing of debt will be undertaken in two tranches. Firstly during 2017 InvoCare will increase its existing facilities to $350m (up from $290M). This will fund the initial work and provide a sensible amount of headroom to allow for opportunistic acquisitions and maintain a conservative liquidity buffer. The longer term funding requirements (2018-20) will be put in place by the end of 2017 following a review to identify the best mix of maturities, funding instruments and facility pricing.

Outlook

The core pillars of growth are summarised below:

- **Demographics** – a revision to the long term growth trend (1.5% increase in deaths pa);
- **Market Share** – stabilised in 2017, improving in 2018 and beyond;
- **Case Average** – growth consistent with recent history;
- **Operating Expenses** – continued efficiency gains;
- **Acquisitions / New developments** – increased activity in both new developments and acquisitions following the network and brand review.

The outlook for 2017 is for a continued improvement in the Groups operating EBITDA growth with high single digit growth anticipated for 2017. The operating EPS growth for 2017 is expected to be slightly lower due to additional costs of debt impacting in 2017, whilst the main benefits associated with the capital will start coming on line in 2018 and beyond.

Total sales revenue for the month of January 2017 was up approximately 9% on January 2016, due mainly to case volume growth in all three core markets. Consistent with past practice, funeral prices were increased as planned in late 2016 and cemetery and crematoria prices are scheduled to be increased during the first quarter of 2017.

The outlook for 2017 is highly dependent on the number of deaths that occur in 2017, and as has been seen in the past this can cause short term volatility, despite the positive longer term trend.

The longer term outlook is for continuing improvement in operating EBITDA performance and for operating EPS growth to reliably deliver double digit growth.

Significant events after the balance date

Subsequent to the balance date a strategic decision was made to execute an orderly closure of the Group's USA funeral operations after a detailed review of its performance to date. Other than this, there have been no significant events occurring after balance date which have significantly affected or may significantly affect either InvoCare's operations or the results of those operations or InvoCare's state of affairs in future financial years.

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 the consolidated entity operates its business. The consolidated entity 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.

Information on directors

Mr Richard Fisher AM MEc LLB
Chairman of the Board
Chair of Nomination Committee
Member of People, Culture and Remuneration Committee
Age 67 years
Appointed October 2003

Richard Fisher is General Counsel to The University of Sydney and is an Adjunct Professor in its Faculty of Law. Richard is the immediate past Chairman of Partners at Blake Dawson (now Ashurst) and specialised in corporate law. He has been a director of InvoCare Limited since 24 October 2003. He is also a director of Sydney Water. Richard is formerly a part-time Commissioner at the Australian Law Reform Commission, an International Consultant for the Asian Development Bank and a Member of the Library Council of NSW. Richard holds a Master of Economics from the University of New England and a Bachelor of Laws from the University of Sydney.

Interest in shares: 17,914 ordinary shares in InvoCare Limited

Mr Martin Earp MSc, BSc (Hons), MBA
Chief Executive Officer
Age 48 years
Appointed April 2015

Martin Earp joined InvoCare on 30 March 2015, was appointed as a Director on 13 April 2015 and assumed the role of CEO and Managing Director 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 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.

Martin holds an MBA from the Australian Graduate School of Management, a Masters in Traffic Engineering and a degree in Transportation Management and Planning.

Interest in shares: 29,545 ordinary shares in InvoCare Limited/ 160,313 options in InvoCare Limited

Dr Christine (Tina) Clifton MB BS (Hons) BHA
Non-executive Director
Chair of People, Culture and Remuneration Committee
Member of Audit, Risk and Compliance Committee
Member of Nomination Committee
Age 61 years
Appointed October 2003

Tina Clifton is a registered medical practitioner. Tina has been a director of InvoCare Limited since October 2003. She has also been a Director of various public and private companies over the last 15 years. Prior to 2001, Tina held various positions in the public and private healthcare sectors including Chief Executive Officer of the Sisters of Charity Health Service in New South Wales and deputy Chief Executive Officer of the Northern Sydney Area Health Service. From 1980 to 1988 Tina was a general practitioner. Tina holds degrees in medicine and health administration and obtained a specialist qualification in medical administration.

Interest in shares: 112,961 ordinary shares in InvoCare Limited

Mr Richard Davis BEc
Non-executive Director
Member of People, Culture and Remuneration Committee
Member of Finance, Capital and Investment Committee
Member of Nomination Committee
Age 61 years
Appointed February 2012

Richard Davis was appointed a non-executive director of InvoCare Ltd on 21 February 2012. 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 currently serving as Chairman of Singapore Casket Company (Private) Limited. Prior to joining the funeral industry, Richard worked in venture capital and as an accounting partner of Bird Cameron. Richard holds a Bachelor of Economics from the University of Sydney.

Other Public Company Directorships held in the last three years:
Australian Vintage Limited (appointed non-executive director in May 2009 and chairman in May 2015)
Monash IVF Group Limited (appointed non-executive director and chairman in June 2014)

Interest in shares: 521,607 ordinary shares in InvoCare Limited

Ms Joycelyn Morton BEc FCA FCPA FIPA FGIA FAICD
Non-executive Director
Chair of Audit, Risk and Compliance Committee
Member of Finance, Capital and Investment Committee
Member of Nomination Committee
Age 57 years
Appointed August 2015

Joycelyn Morton was appointed a director of InvoCare Limited on 19 August 2015. She has more than 37 years experience in finance and taxation having begun her career with Coopers & Lybrand (now PwC), followed by senior management roles with Woolworths Limited and global leadership roles in Australia and internationally within the Shell Group of companies.

Joycelyn was National President of both CPA Australia and Professions Australia, she has served on many committees and councils in the private, government and not-for-profit sectors.

Former ASX listed non-executive director roles include Crane Group Limited, Count Financial Limited and Chair of Noni B Limited. Effective 1 January 2017 Joycelyn joined the Board of ASC Pty Ltd, Australia's largest specialised defence shipbuilding organisation. Joycelyn holds a Bachelor of Economics from the University of Sydney.

Other Public Company Directorships held in the last three years:
Thorn Group Limited (appointed non-executive director in October 2011 and Chair in 2014)
Argo Investments Limited (appointed non-executive director in March 2012)

Argo Global Listed Infrastructure Limited (appointed non-executive director in 2015).

Interest in shares: 8,205 ordinary shares in InvoCare Limited

Mr Gary Stead BCom LLB MBA
Non-executive Director
Chair of Finance, Capital and Investment Committee
Member of Audit, Risk and Compliance Committee
Member of Nomination Committee
Age 59 years
Appointed September 2014

Gary Stead was appointed a non-executive director of InvoCare Limited on 1 September 2014. Gary is currently Managing Director of HPS Investment Partners, LLC based in Sydney, Australia. Prior to his current role, Gary was the Managing Director and Co-Head of Olympus Capital Asia Credit and previously founder and Managing Director of Australia-focused structured credit fund, Shearwater Capital and Chief Executive of Fortress Investment Group Australia, where he established its Australian operations in 2004. Gary's prior experience included 13 years at Merrill Lynch, where he held various leadership positions, including Co-Head of Investment Banking in Japan, Vice Chairman of Investment Banking in Australia, and Head of Mergers and Acquisitions in Australia, Asia-Pacific and Japan, following earlier roles at both Schroders in Australia and Salomon Brothers in New York.

After starting his working career as a solicitor with degrees in law and commerce from the University of New South Wales, he subsequently completed an MBA at Wharton Graduate School of Business at the University of Pennsylvania before commencing a 30 year investment banking career.

Interest in shares: 6,615 ordinary shares in InvoCare Limited

Ms Robyn Stubbs BBus MSc GAICD
Non-executive Director
Age 53 years
Appointed January 2017

Robyn Stubbs was appointed a director of InvoCare Limited on 1 January 2017. 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 non-executive director of the responsible entity for ASX listed Aventus Retail Property Fund and is a Board Member of Lifeline Northern Beaches Incorporated and Harness Racing New South Wales.

Robyn holds a Bachelor of Business from the University of Technology Sydney, is a graduate of The Australian Institute of Company Directors and has completed an MSc in coaching psychology from the University of Sydney.

Other Public Company Directorships held in the last three years:
Aventus Retail Property Fund (appointed non-executive director from 16 October 2015)

Interest in shares: Nil ordinary shares in InvoCare Limited

Company Secretary
Mr Phillip Friery BBus CA

Phillip Friery was appointed Company Secretary in January 2007 and Chief Financial Officer in March 2007. He retired as Chief Financial Officer effective 8 September 2016. Prior to joining the Group in 1994 as Accounting Manager, Phillip spent approximately 19 years with Coopers & Lybrand (before its merger with Price Waterhouse) in external audit, technical advisory and financial management consulting roles. He holds a Bachelor of Business from the New South Wales Institute of Technology (now University of Technology Sydney) and is a member of the Institute of Chartered Accountants Australia and New Zealand.

Interest in shares: 51,874 ordinary shares in InvoCare Limited/ 33,441 options in InvoCare Limited

Chief Financial Officer
Ms Josée Lemoine BCom/Chartered Professional Accountants of Canada

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

Josée's most recent role was with Telstra, having led the Finance transformation program as part of her broader portfolio. Prior to this, 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 holds a Bachelor of Commerce from the Hautes Etudes Commerciales (HEC) at the University of Montréal and is a member of the Chartered Professional Accountants of Canada (formerly known as the Canadian Institute of Chartered Accountants).

Interest in shares: 2,931 ordinary shares in InvoCare Limited/14,754 options in InvoCare Limited

Meetings of directors

Details of the meetings attended by each director during the year ended 31 December 2016 are set below.

	Board		Audit, Risk & Compliance Committee		Finance, Capital & Investment Committee		People, Culture & Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Non-executive Directors										
Richard Fisher	11	11	6*	-	6*	-	6	7	3	3
Christine Clifton	9	11	4	6	3*	-	5	7	2	3
Richard Davis	11	11	6*	-	7	7	7	7	3	3
Gary Stead	10	11	6	6	7	7	3*	-	3	3
Joycelyn Morton	11	11	6	6	6	7	6*	-	3	3
Executive Director										
Martin Earp	11	11	6*	-	7*	-	5*	-	-	-

A = number of meetings attended.
B = number of meetings held during the time the director held office or was a member of the committee during the year.
* = includes meetings attended as an invited guest of the committee where the director was not a member of the relevant committee.

Robyn Stubbs was appointed a Director effective from 1 January 2017.

The composition of the Board and Board Committees is a minimum of three directors. Board Committees consist entirely of independent non-executive directors. The CEO may attend all Board Committee meetings by invitation. Other senior management attend Board and Committee meetings by invitation.

Corporate Governance Statement

The Directors' Report continues with the Corporate Governance Statement.

Corporate governance statement

InvoCare Limited (the "Company") and the Board of Directors (the "Board") are committed to achieving and demonstrating the highest standards of corporate governance. The Company and its controlled entities together are referred to as "InvoCare" or the "Group" in this statement.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council's principles and recommendations as issued in March 2016. The Other Key Management Personnel ("Other KMP") comprise:

- Greg Bisset, Chief Operating Officer Australia ("COO Australia");
- Graeme Rhind, Chief Operating Officer New Zealand ("COO New Zealand");
- Wee Leng Goh, Chief Executive Officer of Singapore Casket Company ("CEO Singapore");
- Phillip Friery, Chief Financial Officer: stepped down as CFO on 8 September 2016 ("CFO") but remains Company Secretary; and
- Josée Lemoine, Chief Financial Officer: effective 8 September 2016 ("CFO").

For further information on the corporate governance policies adopted by InvoCare Limited, refer to the Company's website: www.invocare.com.au

Principle 1 - Lay Solid Foundations for Management and Oversight

Functions of the Board and senior executives

The Board of InvoCare Limited is responsible for guiding and monitoring the Group on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The responsibility for the operation and administration of the Group, including day-to-day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives, is delegated by the Board to the CEO, other Senior Executives (being the direct reports of the CEO including the Other KMPs), and other management. Delegations are set out in the Group's delegations policy and are reviewed regularly. Delegations, within defined authority limits, relate to various operational functions, including areas such as expenditure and commitments, employee matters (e.g. recruitment, termination, remuneration, discipline, training, development, health and safety), pricing, branding, investor and media communications. The Board ensures that the senior executives and the management team are appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the senior executives.

In deciding which functions and activities the Board reserves to itself, it is guided by the overarching principle that the Board is charged with strategic responsibility, along with a management oversight function, and that the executive management have an implementation function. In fulfilling these functions, the directors seek to enhance shareholder value and protect the interests of stakeholders.

The Board Charter is available on the Company's website: www.invocare.com.au

Board and senior executive appointments

Prior to the appointment of a new director or senior executive, thorough background checks are undertaken to ensure that the individual has the appropriate background to hold their position with the Company. For directors, information about these checks is included in the Notice of Meeting when the individual stands for election. For senior executives, information about the checks is held by the Company Secretary. All Board members have formal letters of appointment which clearly articulate the roles, responsibilities, expectations and remuneration of directors. All senior executives have agreed formal contracts stipulating the terms of their employment including duties, obligations and conditions.

Company Secretary

The Company Secretary is a dedicated part time position created in September 2016 and works closely with the Chairman of the Board and various committees to ensure that all directors receive the information they require to fully discharge their duties which includes facilitating external advice to directors where appropriate. Some aspects of these functions are supported by other senior staff specialists where appropriate and these interactions are free of executive management oversight to ensure that directors are fully informed.

Diversity

InvoCare released its Inclusion Policy during February of 2016 which is available on its website: www.invocare.com.au. The Inclusion Policy provides a framework that reinforces the Company's long held commitment to diversity, with a focus on creating an inclusive organisational culture where all individuals feel respected and valued for their uniqueness. The nature of InvoCare's businesses means that its employees come into daily contact with families from every walk of life and facet of society so a focus on inclusion makes a direct contribution to the business’s ongoing success, as well as being in line with community and stakeholder expectations. From a gender perspective, women currently comprise 43% (2015: 33%) of the Board, 36% (2015: 25%) of the group executive and 40% (2015: 35%) of Australian management. InvoCare’s current focus is on specific actions that will achieve overall gender equality at the Australian management level by the end of 2020, that is, a minimum of 45% management roles will be held by either gender. The Australian entity is a relevant employer under the terms of the Workplace Gender Equality Act.

Directors’ performance evaluation

The Board, through its Nomination Committee, undertakes an annual performance review of the full Board, its Committees and of the Chairman. The Chairman performs individual appraisals of each director.

The evaluation process, which was completed late in 2016, involves an assessment of Board and committee performance by each director completing a confidential questionnaire. The questionnaire covers such matters as the role of the Board, the composition and structure of the Board and committees, operation of the Board, Group behaviours and protocols and performance of the Board and committees, and invites comments from each director.

The results of the questionnaire are aggregated and discussed by the Board as a basis for collegiate consideration of Board performance and opportunities for enhancement.

The individual appraisals between each director and the Chairman provide an opportunity for consideration of individual contributions, development plans and issues specific to the director.

The evaluation process provides the Board an opportunity to make an informed assessment of the skills of each individual director, reflect on how those skills are meeting the needs of the Company and consider Board succession planning.

Senior executive evaluation

After the conclusion of each financial year the CEO evaluates and documents the performance of each member of the Group Executive (senior executives including Other KMPs). The results of the achievement of targeted key performance indicators are reviewed by the People, Culture and Remuneration Committee along with market remuneration data for each role type. The Committee and the Board also review and determine each senior executive’s key performance indicators and remuneration for the ensuing year.

The People, Culture and Remuneration Committee evaluates the performance of the CEO against annual key performance indicators and reports to the Board its recommendations on performance appraisal and remuneration.

In addition to a review of monthly financial results, at least quarterly the Board monitors the key performance indicators and strategic plan for the Group which provides the opportunity to more regularly evaluate the performance of senior executives outside the annual review process.

Principle 2 – Structure the Board to Add Value

Board composition

The Board currently comprises seven directors, being six non-executive directors (including the Chairman) and one executive director, being the CEO. Any director appointed to fill a casual vacancy, except for the CEO, must stand for election by shareholders at the next Annual General Meeting. In addition, one-third of the non-executive directors, and any other director who has held office for three years or more since last being elected, must retire from office and, if eligible, may stand for re-election. The CEO is exempt from retirement by rotation and is not counted in determining the number of directors to retire by rotation.

The composition of the Board and Board Committees is a minimum of three directors. Board Committees consist entirely of independent non-executive directors. The CEO may attend all Board Committee meetings by invitation. The other Senior Executives or managers attend Board and Committee meetings by invitation.

At the date of this report, the composition of the Board Committees is as follows:

Director	Audit, Risk & Compliance	People, Culture & Remuneration	Finance, Capital & Investment	Nomination
Richard Fisher		✓		Chair
Christine Clifton	✓	Chair		✓
Richard Davis		✓	✓	✓
Joycelyn Morton	Chair		✓	✓
Gary Stead	✓		Chair	✓
Robyn Stubbs		✓	✓	✓

Nomination Committee

The Nomination Committee critically reviews on an annual basis the corporate governance procedures of the Group and the composition and effectiveness of the Board. The Committee currently consists of the six independent non-executive directors of the Board. The Committee is chaired by Richard Fisher.

In addition to its role in proposing candidates for director appointment for consideration by the Board, the Nomination Committee reviews and advises the Board in relation to CEO succession planning, Board succession planning and Board and committees' performance appraisals.

In 2014, the Committee assisted the Board in making the decision not to renew the former CEO's contract at the end of its term on 30 April 2015. Martin Earp was appointed as CEO following an external search conducted with the Committee's oversight. Although the replacement CEO was appointed as recently as 1 May 2015, there is an ongoing focus on CEO succession.

In terms of Board succession planning and composition, there have been two new directors appointed in the last eighteen months. These appointments were made to provide additional expertise and/or replace the skills of departing directors. In addition, Christine Clifton has foreshadowed her intention to retire before the next Annual General Meeting. Similar Richard Fisher has advised the Board he will retire in the course of 2018. Planning for their succession is now underway. Moreover, with the appointment of Robyn Stubbs to the Board it has been possible to refresh the membership of the Board's Committees and Robyn has been appointed to each of the People, Culture & Remuneration, the Finance, Capital & Investment and the Nominations committees.

InvoCare may utilise the professional advice of external consultants to find the best person for the position of director of the Company. These advisors seek applicants according to the Board's skills requirements. The Board also acknowledges the benefits of a diverse Board and requires the advisors to present candidates with equal numbers of suitably qualified men and women and with some diversity in cultural background and age. The Board then selects the most suitable candidate(s) for the consideration of the shareholders. The Board is looking to achieve an appropriate mix of skills and diversity amongst directors.

The Committee Charter is available on the Company's website: www.invocare.com.au

Board skills matrix

When considering the appointment of a new director the Board through the Nomination Committee considers the desirable skills mix for the Board and focusses its search on potential candidates who complement the existing skill set of the Board. The current matrix is summarised in the following table:

Director / Skill Set	Business Management	Legal	Accounting / Finance	Funeral Industry	Health	International Business
Richard Fisher	✓	✓		✓		✓
Tina Clifton	✓			✓	✓	
Richard Davis	✓		✓	✓		✓
Joycelyn Morton	✓		✓			✓
Gary Stead	✓	✓	✓			✓
Robyn Stubbs	✓					✓
Martin Earp	✓		✓			✓

Board independence

The majority of the Board must be independent directors, one of whom is the Chairman. A director is deemed to be "independent" if independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement.

The Board has assessed, using the criteria set out in the ASX Corporate Governance Principles and Recommendations, the independence of non-executive directors in light of their interests and relationships and considers them all to be independent. The Company will provide immediate notification to the market where the independence status of a director changes.

The skills, experience and expertise relevant to the position of each director and their term of office are set out starting on page 16 of the Directors' Report.

Directors' access to independent professional advice and Company information

To assist in the effective discharge of their duties, directors may, in consultation with the Chairman, seek independent legal or financial advice on their duties and responsibilities at the expense of the Company and, in due course, make all Board members aware of both instructions to advisers and the advice obtained.

All directors have the right of access to all relevant Company information and to seek information from the Company Secretary and other senior executives. They also have a right to other records of the Company subject to these not being sought for personal purposes.

All directors and former directors are entitled to inspect and copy the books of the Company for the purposes of legal proceedings, including situations where the director is a party to proceedings, where the director proposes in good faith to bring proceedings and where a director has reason to believe proceedings will be brought against him or her. In the case of former directors, this right of access continues for a period of seven years after the person ceases to be a director.

Prior to each Board meeting, the Board is provided with management reports and information in a form, timeframe and quality that enables them to discharge their duties. If a board member considers this information to be insufficient to support informed decision making, then they are entitled to request additional information prior to, or at, Board or committee meetings.

Directors' induction

When appointed to the Board, all new directors receive an induction appropriate to their experience, which is designed to quickly allow them to participate fully and productively in Board decision making.

The induction programme covers the Group's structure and goals, financial, strategic, operational and risk management positions, the rights and duties of a director and the role and operation of the Board Committees. The Nomination Committee is responsible for reviewing the effectiveness of the director induction programme. New directors are given an orientation regarding the business, including corporate governance policies, all other corporate policies and procedures, Committee structures and responsibilities and reporting procedures.

Directors' continuing education

Directors are expected to undertake continuing education both as regards the normal discharge of their formal director duties, as well as ongoing developments within the Group and its operating environment. Directors typically attend courses and seminars relevant to the effective discharge of their duties.

Principle 3 – Act Ethically and Responsibly

Code of Conduct

The Board, in recognition of the importance of ethical and responsible decision making, has adopted a Code of Conduct for all employees and directors which outlines the standards of ethical behaviour which are essential to maintain the trust of all stakeholders and the wider community. This code also mandates the avoidance of conflicts of interest and requires high standards of personal integrity, objectivity and honesty in the dealings of all directors and employees, providing detailed guidelines to ensure the highest standards are maintained.

InvoCare recognises that its clients may be vulnerable due to a recent bereavement and it requires all employees to be aware of their ethical and legal responsibilities. Accordingly, InvoCare requires all employees to behave according to this code, to maintain its reputation as a good corporate citizen. Such behaviours extend to areas such as confidentiality, Privacy Act obligations, communications with the media, work health and safety and drugs and alcohol.

This code is provided to all directors and employees as part of their induction process and compliance is reviewed on a regular basis. It is subject to ongoing review and assessment to ensure it continues to be relevant to contemporary conditions.

The code is available on the Company's website: www.invocare.com.au

Principle 4 - Safeguard Integrity in Corporate Reporting

Audit, Risk & Compliance Committee

The Audit, Risk & Compliance Committee provides assistance to the Board in fulfilling its corporate governance, risk management and oversight responsibilities in relation to the Group's financial reporting, internal control structure, interest rate and foreign currency risks and the internal and external audit functions.

It is the responsibility of the Committee to maintain free and open communication between the Committee, the external auditor, the internal auditor and management of the Group. Both the internal and external auditors have a direct line of communication to the Chairman of the Audit, Risk & Compliance Committee.

The Audit, Risk & Compliance Committee comprises three independent non-executive directors and is chaired by Joycelyn Morton. Ms Morton is an FCPA, FCA and FGIA and brings a wealth of financial and taxation experience to the Committee. Other members are Christine Clifton and Gary Stead. The number of meetings held during the year and the individual attendances at those meetings is set out in the Information on Directors section of the Directors' Report on page 19.

The external auditor met with the Audit, Risk & Compliance Committee during the year without management being present.

The Committee Charter is available on the Company's website: www.invocare.com.au

Assurance

Prior to finalising the release of half-year and full-year results and reports, the Board receives assurance from the CEO and CFO in accordance with s295A of the *Corporations Act 2001* and Recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations. These assurances also provide the Board with information in relation to internal control and other areas of risk management. These officers receive similar assurance from the key financial and operational staff reporting to them in relation to these matters.

Auditor attendance at the Annual General Meeting

The Company's external auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Principle 5 - Make Timely and Balanced Disclosure

The Company has appropriate mechanisms in place to ensure all investors are provided with timely, complete and accurate information affecting the Group's financial position, performance, ownership and governance.

The Chairman, CEO, CFO or Company Secretary are responsible, as appropriate, for communication with shareholders and the Australian Securities Exchange ("ASX"). This includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Continuous disclosure obligations are well understood and upheld by the Board and senior executives. Formal and informal discussion and consideration of these obligations occurs as and when the need arises. The Group's shareholder communication strategy is designed to ensure that all relevant information, especially market sensitive information, is made available to all shareholders and other stakeholders as soon as possible. InvoCare's website is structured to ensure information is easily located and logically grouped. Those shareholders who have made the appropriate election receive email notification of all announcements.

The Continuous Disclosure Policy and Shareholder Communication Strategy are available on the Company's website: www.invocare.com.au

Principle 6 - Respect the Rights of Shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Group's state of affairs.

The Company uses its website to complement the official release of material information to the ASX. Shareholders may elect to receive email alerts when Company announcements are made. Notice of Annual General Meeting, half-year and annual results announcements and financial reports, investor presentations, press releases and other ASX announcements can be found on the Company's website: www.invocare.com.au

Additionally, all shareholders have the right to access details of the holdings, provide email address contacts and make certain elections via the Company's share registry Link Market Services Limited by accessing the web site www.linkmarketservices.com.au. Shareholders have the option of receiving all or a selection of communication electronically.

The Company encourages full participation of shareholders at the Annual General Meeting. The Chairman of the meeting encourages shareholders to ask reasonable questions at the Annual General Meeting. The Board makes itself available to all shareholders both before and after the Annual General Meeting.

The next Annual General Meeting is scheduled to be held at 11.00am on Friday, 19 May 2017 at the offices of PricewaterhouseCoopers, One International Towers, Waterman Quay, Barangaroo.

Shareholders are also able to direct any questions relating to the Company's securities to the share registry, Link Market Services Limited.

Principle 7 – Recognise and Manage Risk

The Board, through the Audit, Risk & Compliance Committee, reviews and oversees the Group's risk management systems.

Audit, Risk & Compliance Committee

The Audit, Risk & Compliance Committee determines the Group's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Committee does not have responsibility for strategy which is a Board responsibility. The Board has reviewed the Group's risk management framework during the year and confirmed that it remains sound.

The Company's approach to managing risk draws from the International Standard ISO 31000 for Enterprise Risk Management. The Group does not have any material exposure to economic, environmental and social sustainability risks.

Each senior executive, with input and assistance from their direct reports, identifies key risks for their areas of responsibility and function which are in turn aggregated into an overall corporate risk register. Each risk is assessed and assigned an inherent risk rating. The risk register is continuously reviewed and maintained as new risks are identified or incidents occur, or mitigating controls change.

Extracts of the risk register are provided to the Audit, Risk & Compliance Committee at each of its meetings, together with specific commentary or information on significant changes to the risks or the ratings. Specific major risks or incidents are reported, as and when they occur, to the CEO and other Senior Executives who are responsible for escalating these to the Audit, Risk & Compliance Committee and Board, where necessary, if the event occurs outside the regular cycle of Committee meetings. The Committee is informed of the effectiveness of actions to mitigate the impact of risk events. In addition, the Committee considers developments or improvements in risk management and controls, including the adequacy of insurance programmes.

Separate records and registers are maintained for other more common or recurring risks; for example, arising from customer complaints and workplace health and safety issues. These are managed and reported to the Committee by the Group Executive Business Operations. In this context, the Committee monitors complaints handling and also has a strong focus on ensuring suitable work practices and employee learning and development programmes are developed and delivered.

The Audit, Risk & Compliance Committee Charter is available on the Company's website: www.invocare.com.au

Internal control

The Group maintains a register of delegated authorities which are designed to ensure that all transactions are approved at the appropriate level of management and by individuals who have no conflicts of interest in relation to the transaction.

An internal audit function is established and has developed a self-assessment questionnaire which is distributed to operational management. This questionnaire serves to build higher awareness and understanding of business risks and how to manage and control them.

Principle 8 – Remunerate Fairly and Responsibly

People, Culture and Remuneration Committee

InvoCare's remuneration policy ensures that remuneration packages properly reflect employees' duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of appropriate calibre. The People, Culture and Remuneration Committee reviews and makes recommendations to the Board on senior executive remuneration and appointment and on overall Group remuneration and benefits policies.

The People, Culture and Remuneration Committee comprises three independent non-executive directors with Christine Clifton as Chair and Richard Fisher and Richard Davis as members. The number of meetings held during the year and the individual attendances at those meetings is set out in the Information on Directors section of the Directors' Report on page 19.

The People, Culture and Remuneration Committee Charter is available on the Company's website: www.invocare.com.au

Remuneration structure

Remuneration for senior executives typically comprises a package of fixed and performance-based components. The Committee may, from time to time, seek advice from special remuneration consulting groups so as to ensure that the Board remains informed of market trends and practices.

Non-executive directors are remunerated by way of directors' fees, which may be sacrificed by payment into superannuation plans or by allocation of ordinary shares. They do not participate in schemes designed for the remuneration of employees, and do not receive retirement benefits, bonus payments or incentive shares.

Senior executive remuneration and other terms of employment are reviewed annually by the Committee, having regard to individual and Group performance, contribution to long-term growth, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses, long term incentives and fringe benefits. The Remuneration Report which begins on page 27 provides detailed information about the current remuneration practices and the levels of remuneration, including recent changes to long term incentive arrangements.

Share Trading Policy

The Company's share trading policy is designed to minimise the risk that InvoCare, its directors and its employees will breach the insider trading provisions of the Corporations Act or compromise confidence in InvoCare's practices in relation to securities trading. The policy prohibits directors and employees from trading in InvoCare securities when they are in possession of information not generally available to the investment community, and otherwise confines the opportunity for directors and employees to trade in InvoCare securities to certain limited periods. The policy specifically bans the use of techniques or products to limit the economic risk associated with holding the Company's securities.

This policy applies to all senior staff, particularly managers and other senior employees, such as finance team members, who have access to information which is not generally available. In addition, it applies to all the associates of these individuals. The policy prohibits trading in the Company's shares except within narrow and specific windows when the Group believes the market is fully informed. There are limited procedural exceptions to the policy and in certain circumstances the Chairman has the ability to approve trading outside the policy prescriptions.

The share trading policy is available on the Company's website: www.invocare.com.au

The Directors' Report continues with the Remuneration Report.

Remuneration report

The Remuneration Report summarises the key compensation policies and practices for the year ended 31 December 2016, highlights the link between remuneration and corporate performance and provides detailed information on the compensation for non-executive and executive directors and other key management personnel.

The Remuneration Report is set out under the following main headings:

A. Directors and key management personnel disclosed in this report
B. Executive remuneration policy and framework
C. Relationship between remuneration and InvoCare's performance
D. Non-executive director remuneration policy
E. Details of remuneration
F. Service agreements
G. Share-based compensation
H. Use of remuneration consultants

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A. Directors and 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 and are as follows:

Non-executive directors

Richard Fisher (Chairman)

Christine Clifton

Richard Davis

Joycelyn Morton

Gary Stead

Other key management personnel

Martin Earp (Managing Director and Chief Executive Officer)

Josée Lemoine (Chief Financial Officer from 8 September 2016)

Phillip Friery (Chief Financial Officer until 8 September 2016 and Company Secretary)

Greg Bisset (Chief Operating Officer Australia)

Wee Leng Goh (Chief Executive Officer Singapore)

Graeme Rhind (Chief Operating Officer New Zealand)

A Group Executive Team ("GET") comprising Martin Earp's direct reports continues to operate. The Board has determined that not all members of the Group Executive Team are considered KMP, 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 Group Executive Team to reflect the evolving strategy and structure of the Company. The use of the term Senior Executives in this report means members of the Group Executive Team.

B. Executive remuneration policy and framework

Policy

The guiding principle underlying InvoCare's executive remuneration philosophy is to ensure rewards are fair and reasonable, having regard to both internal and external relativities, appropriately balanced between fixed and variable components and that all variable components are commensurate with performance and results delivered.

InvoCare's remuneration policy is that:

- for each role, the balance between fixed and variable components should reflect market conditions;
- individual objectives should reflect the need for sustainable outcomes;
- all variable pay should be tightly linked to measurable personal and business performance;
- total compensation should be market competitive and be reviewed annually, with no component guaranteed to increase; and
- the CEO's and Senior Executives' 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 individual and overall Group performance targets are met.

Commencing January 2016, 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; and/or
- a material abnormal occurrence results in an unintended increase in the award.

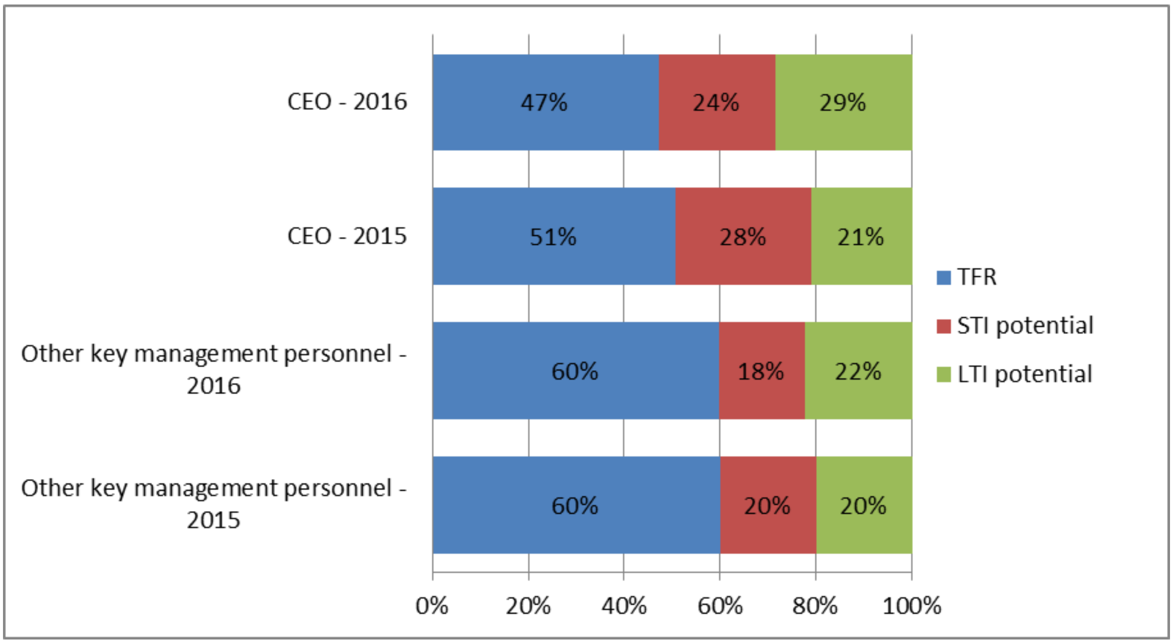
In accordance with InvoCare's Share Trading Policy, senior managers are prohibited from trading the Company's shares other than during specified trading windows, or with approval in exceptional circumstances, provided they do not possess inside information. In addition, senior managers are not permitted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

Remuneration structure

The compensation of the CEO and other Senior Executives is comprised of payments and/or allocations under the following categories:

- total fixed remunerations including base salary and benefits, annual leave, superannuation and other incidental benefits;
- short-term incentives ("STI") in the form of annual cash bonuses; and
- long-term incentives ("LTI") in the form of share-based compensation.

The target remuneration mix for the CEO and other KMP, as depicted in the following graph (and averaged for the other KMP), is set to place a considerable portion of executive remuneration at risk so as to align remuneration with both Group performance and the individual's personal influence and contribution to the Group performance.



During 2016 Senior Executives and many of their direct reports were transitioned to Total Fixed Remuneration ("TFR") rather than a "Base plus superannuation" description. The intent is to implement this, more current practice across all levels of management during 2017.

No director or other key management personnel has, at 31 December 2016 or during or since the end of the financial year, had any loans to or from the Group. The CEO and Senior Executives hold options over unissued shares in the Company under the terms the LTI scheme introduced during 2016. Section G provides detail for each KMP.

Short-term incentives ("STI")

STIs are awarded for achievement of pre-determined financial and non-financial objectives. For Senior Executives, the target criteria and possible bonus levels are defined each year by the People, Culture &

Remuneration Committee and Board, in consultation with the CEO. For other executives, the Senior Executives determine the objectives and reward levels within the constraints of a Board approved budget.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on Group performance. The STI opportunity for 2016 was up to a maximum of 51.4% of TFR for the CEO and from 24.8% up to a maximum of 44.7% for the other Senior Executives. The target criteria for Senior Executives are heavily weighted to overall financial performance, measured by EBITDA, being 50% of the potential STI opportunity for the CEO other Senior Executives, but are also tailored to the relevant circumstances of each executive. In the case of the EBITDA target 50% of the STI amount is paid when 95% or more of the target is achieved. If 100% or more of the target is achieved the STI amount is limited to 100% of the target STI. The Group seeks to reward executives for sustained outperformance and this is reflected in the design and vesting arrangements in the LTI Plan, as well as an increased weighting to LTI incentive opportunities from 2016.

In summary, the criteria used to determine short-term bonuses for Senior Executive are aligned with InvoCare's strategic and business objectives and include:

- group, specific country or specific business EBITDA growth targets, with EBITDA being a key financial measure of the success of operations;
- absolute case volume and Group, specific country or specific market share growth, which are cornerstones of the past and future growth of the business; and
- other operational targets specific to the particular role including items like ERP implementation or decrease employee initiated turnover by 10% in Australia.

Other levels of staff also received short-term objective based compensation based on measurable and pre-determined targets. In addition to complementing the targets applying to more senior executives, for example these objectives include key performance indicators such as average revenue per case, sales of prepaid contracts, the management of labour costs, client survey results and debtors' days outstanding.

Bonuses 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. The People, Culture & Remuneration Committee considers that STI bonuses are awarded for achievement of key performance criteria for a particular financial year, without payment for outperformance, and that no part of the bonus should be deferred for payment in a later year. The Committee is of the view that the share-based LTI, described in more detail below, provides incentive for outperformance over the longer term, encourages executives to remain employed with the Group and ensures alignment with shareholder interests.

Long-term incentives ("LTI")

During 2015 the People, Culture & Remuneration Committee reviewed the design and operation of the LTI arrangements. As a consequence, a new LTI plan was introduced from January 2016 to eligible participants. It is referred to as the Performance Long Term Incentive Plan (PLTIP) and is aimed at attracting, rewarding and retaining high performing executives who contribute to the overall medium and long term success of InvoCare.

Key features of the PLTIP:

- participants will be restricted to the CEO, the other Senior Executives, operational General Managers and selected high performing or high potential senior managers by invitation and as approved by the Board;
- the awards are performance shares rights ("PSRs") or options;
- there is a return on capital gateway before any awards meeting performance conditions will vest;
- no dividends will be paid on unvested awards; and
- there will be no voting rights.

For offshore employees participating in the PLTIP, any vested awards may be settled in cash instead of equity.

During 2007, a share-based compensation scheme, the InvoCare Deferred Employee Share Plan ("DESP"), was introduced under which the Board may offer selected senior managers incentive shares ("Deferred Shares"), or, in the case of foreign managers who may not be able to participate in Australian share offers, share equivalents ("Deferred Rights"). No consideration is payable by the employee for the DESP offer, but they are subject to continuous service and, for senior management, performance conditions. Deferred Shares are purchased on-market and hence the DESP is operated on a non-dilutive basis. Share equivalents for offshore employees are settled in cash.

Participants in the PLTIP are not eligible for grants under the existing DESP. This existing plan will be retained and continue for remaining participants and, at the CEO's discretion, future participants. From January 2016, awards under the DESP will vest subject to continuous service only and recognise the contribution of primarily middle level managers over time through the granting of modest amounts of equity.

In determining the amount of an offer to an individual manager, consideration is given to factors, including market benchmarks, skill and experience, expected and actual performance over time and promotion and succession potential.

A tiered arrangement by level applies to offers under the PLTIP:

- CEO – of the maximum LTI award, 75% is in options and 25% in PSRs;
- GET Participants – 75% in options and 25% in PSRs; and
- Other Participants – 50% in options and 50% in PSRs.

The value of LTI award offered in 2016 was up to a maximum of 60% of TFR for the CEO and up to a maximum 41.3% for the other Senior Executives.

The number of PSRs was calculated at the date of issue by dividing the value of LTI to be awarded in PSRs by the face value of an InvoCare share. The face value is based on the 10-day VWAP for InvoCare shares starting from the first day of the Trading Window immediately following the announcement of the full-year result.

The number of options was calculated based upon the value of LTI to be awarded in options divided by the option valuation at the award date. This option value was determined by an independent actuary 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.

Under the DESP, the number of Deferred Shares or Deferred Rights is calculated by dividing the value of the LTI award by the on-market acquisition cost of InvoCare shares on the 10-day VWAP at the date of the grant if sufficient shares are available in the trust to satisfy the grant.

Vesting of the LTI awards under the PLTIP and DESP will be in three equal tranches in February of each of the second, third and fourth subsequent years after the year of offer. This is to allow for the impact that the number of deaths has on the Group's annual result, which is outside the control of management particularly given the fixed cost nature of the business. Vesting of the first LTI tranche two years out from the initial grant, in part compensates for the fact STIs are capped and there is no additional reward for short term outperformance. Over the longer term, sustained levels of short term outperformance should translate into higher LTI rewards.

Upon vesting of Deferred Shares under the DESP, the employee has the discretion to leave the Deferred Shares in trust, withdraw or sell any number of them. Upon vesting of Deferred Rights under the DESP, the employee will be paid in cash an amount equivalent to the number of vested Deferred Rights multiplied by the value of those rights derived by reference to the market value of InvoCare shares.

Upon vesting of PSRs under the PLTIP, the employee will be provided with InvoCare shares, satisfied either by a new issue or by on-market purchase. In the case of vested options, the exercise period is from the date of grant until 10th anniversary of the grant (eg for 2016 awards the end of option life will be February 2026).

Both schemes use the compound growth per annum in normalised Earnings per Share ("EPS") over the vesting period. However, a 'gateway' condition must be met before any PLTIP awards can vest. The gateway requires a minimum level of Return on Invested Capital ("ROIC") greater that the Weight Average Cost of Capital ("WACC"). 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; and
- for PLTIP awards from February 2016:
    - to reflect constant currency; and
    - to remove impacts of non-cash movements in prepaid contracts and associated funds under management.

In the case of the CEO, CFO and Group Executive Capital Management, the non-cash movements for Guardian Plan prepaid contracts and funds under management will be included in the EPS figure utilised in calculating vesting for PLTIP.

Compound growth per annum of normalised EPS share was selected at the time of establishment of the DESP as the most suitable and reliable measure of organisational performance, based on independent advice and analysis by the Board. As part of the review of LTI arrangements during 2015, the People, Culture & Remuneration Committee re-affirmed the appropriateness of the EPS absolute measure, including by comparison to the commonly used Total Shareholder Return ("TSR") relative metric. The reasons for this conclusion include:

- InvoCare is a stable business without a true comparator peer or group to benchmark performance against within Australia;
- relative TSR incentives tend to favour executives in companies with higher levels of inherent share price volatility than InvoCare, which has lower volatility in both share price and earnings than other ASX listed entities or market indices;
- InvoCare has relatively small market capitalisation and its growth may appear constrained relative to an index or selected peer group;
- the vagaries of equity markets are not controllable by InvoCare's Board or its executives and introducing TSR would detract from the clear and proven organisational performance culture which already exists within InvoCare; and
- earnings per share 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.

Subject to the ROIC gateway condition, the EPS performance conditions applying for PLTIP awards in 2016 and 2017 are as set out below:

Normalised reported earnings per share ("EPS") compound growth per annum from 1 January in the year of offer	Proportion of each one-third tranche of LTI shares that will vest
12% or more	100%
11% or more but less than 12%	86% plus 1.4% for each 0.1% EPS over 11%
10% or more but less than 11%	72% plus 1.4% for each 0.1% EPS over 10%
9% or more but less than 10%	58% plus 1.4% for each 0.1% EPS over 9%
8% or more but less than 9%	44% plus 1.4% for each 0.1% EPS over 8%
7% or more but less than 8%	30% plus 1.4% for each 0.1% EPS over 7%
Less than 7%	Nil

For DESP grants made in 2015, 2014 and 2012 the EPS performance vesting conditions are:

Normalised reported earnings per share ("EPS") compound growth per annum from 1 January in the year of offer	Proportion of each one-third tranche of LTI shares that will vest
10% or more	100%
9% or more but less than 10%	77% plus 2.3% for each 0.1% growth in EPS over 9%
8% or more but less than 9%	53% plus 2.4% for each 0.1% growth in EPS over 8%
7% or more but less than 8%	30% plus 2.3% for each 0.1% growth in EPS over 7%
Less than 7%	Nil

For DESP grants made in 2013 the EPS performance vesting conditions are:

Normalised reported earnings per share ("EPS") compound growth per annum from 1 January in the year of offer	Proportion of each one-third tranche of LTI shares that will vest
12% or more	100%
11% or more but less than 12%	80% plus 2.0% for each 0.1% EPS over 11%
10% or more but less than 11%	65% plus 1.5% for each 0.1% EPS over 10%
9% or more but less than 10%	55% plus 1.0% for each 0.1% EPS over 9%
8% or more but less than 9%	50% plus 0.5% for each 0.1% EPS over 8%
7% or more but less than 8%	30% plus 2.0% for each 0.1% EPS over 7%
Less than 7%	Nil

If the compound EPS growth performance conditions are not met at the vesting date, the unvested LTI awards remain available until February in the fifth year after grant and may vest based on the compound annual growth from the base date for the grant to 31 December of the previous year. Unvested awards at the fifth anniversary of the grant are automatically forfeited.

To receive 100% of the LTI awards, the Senior Executive or manager must remain employed during the vesting period and InvoCare's compound EPS growth must equal or exceed the maximum target growth percentage. The employee remains exposed over this timeframe to the consequences of the Group's results, their own individual performance impacting that result and the market movements in InvoCare's share price.

In general, should a participant cease employment as a result of resignation or termination in circumstances the Board determines as related to their performance, all unvested equity awards held by the participant will lapse. In exceptional circumstances, 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.

In circumstances where a termination is for reasons including retirement, death, total and permanent disablement, and bona fide redundancy, the Board may, at its sole discretion, allow all or part of the unvested equity awards to continue on foot and vest subject to the original terms and performance and service conditions set out in the letter of offer and plan rules at the time of award.

In the event of a change in control or other circumstances where the Board determines it is not practical or appropriate for the unvested equity 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.

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.

The following table summarises the performance to date for the grants made since 2012 which impact remuneration in the current or a future financial year*.*

LTI share grant year	Target annual compound normalised EPS growth from 1 January of grant year	Normalised EPS on 1 January of grant year	Performance condition testing date and vesting outcome
2012	7% to 10%	34.4 cents	February 2014 – 39% of the first 1/3rd tranche vested February 2015 – 100% vesting of second and unvested first tranches February 2016 – 91% vesting of third 1/3rd tranche vested February 2017 – 100% of all unvested shares vest
2013	7% to 12%	38.7 cents	February 2015 – 100% of first 1/3rd tranche vested February 2016 – 54% of second 1/3rd tranche vested February 2017 – 100% vesting of third tranche and unvested second tranche shares February 2018 - not required
2014	7% to 10%	39.7 cents	February 2016 – 100% of first 1/3rd tranche vested February 2017 – 100% of second 1/3rd tranche vested February 2018 – to be determined February 2019 (if required)
2015	7% to 10%	49.1 cents	February 2017 – 100% of first 1/3rd tranche vested February 2018 – to be determined February 2019 – to be determined February 2020 (if required)
2016	7% to 12%	49.8 cents	February 2018 – to be determined February 2019 – to be determined February 2020 – to be determined February 2021 (if required)
2017	7% to 12%	61.6 cents	February 2019 – to be determined February 2020 – to be determined February 2021 – to be determined February 2022 (if required)

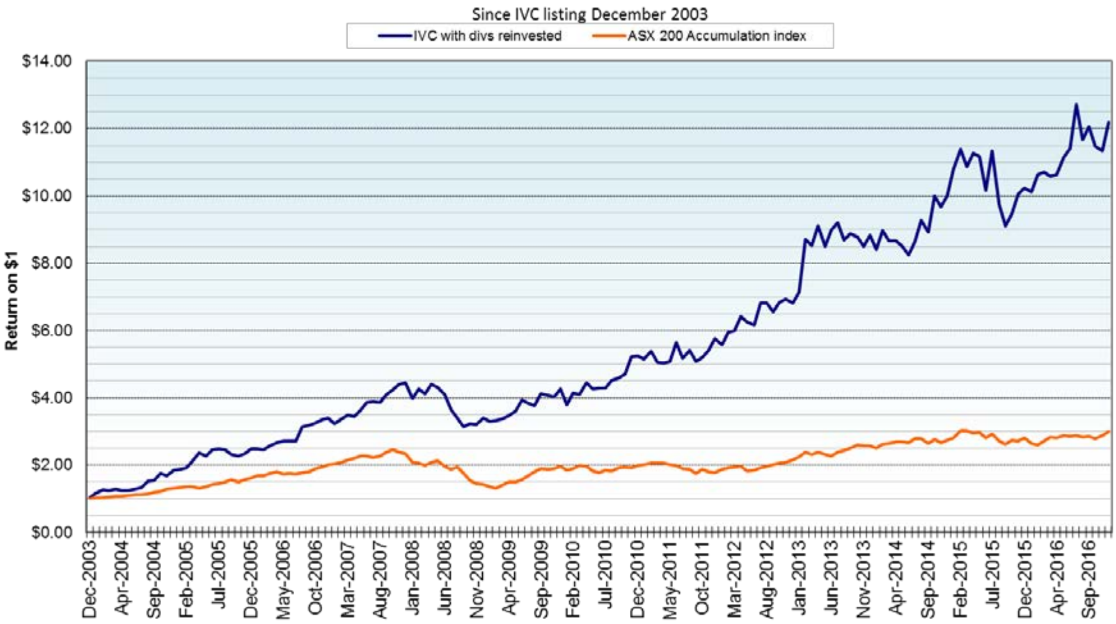
Future offers of LTI awards may be made at the discretion of the Board and the service and performance conditions for any future offers may vary from previous LTI offers.

Further details of LTI awards are set out under the heading "G. Share-based Compensation".

C. Relationship between remuneration and InvoCare's performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with at risk remuneration linked to that performance. The remuneration approach, elements and mix has delivered an annualised 21.3% return for shareholders between listing in December 2003 and the end of 2016. As depicted by the following graph, the growth of an investment of $1 in InvoCare at listing exceeds the ASX200 growth over that period.

Growth of $1 in IVC with all dividends reinvested vs ASX 200 accumulation index



Based upon achievements in 2016, the People, Culture & Remuneration Committee determined the CEO and Senior Executives achieved an average 80% of their target STI opportunity. The percentage of the available STI cash bonus that was payable for the financial year and the percentage that was forfeited because the person or the consolidated entity did not meet the service and performance criteria is set out below*:*

	Cash STI bonus	
Name	Payable %	Forfeited %
Martin Earp	92	8
Josée Lemoine	88	12
Phillip Friery	88	12
Greg Bisset	65	35
Wee Leng Goh	83	17
Graeme Rhind	39	61
Average	**80**	**20**

The following factors were among those considered by the People, Culture & Remuneration Committee in making its assessment on the achievement of the STI opportunity:

- EBITDA;
- Key operational projects;
- Market share;
- New business acquisitions; and
- Culture initiatives.

When assessing the non-numeric targets the Board had the benefit of a detailed review undertaken by Executive Governance.

In addition to STI, upon satisfying service and performance conditions, the Senior Executives also received the benefit of the vesting of LTI awards made in prior years. Further details are set out on page 37 under the heading "G. Share-based Compensation".

The table below shows measures of the Group's financial performance over the last five years, including those required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining the at-risk incentive components of Senior Executives' remuneration. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

	2016	2015	2014	2013	2012
Reported profit after tax ($m)	**$70.9m**	$54.8m	$54.5m	$48.9m	$44.5m
Basic earnings per share (cents)	**64.7¢**	50.1¢	49.8¢	44.7¢	40.6¢
Operating earnings after tax ($m) - note 1	**$55.2m**	$49.4m	$46.2m	$42.5m	$42.5m
Normal dividends ($m)	**$46.5m**	$40.2m	$40.1m	$37.9m	$37.4m
Normal dividends per share (cents)	**39.3¢**	38.0¢	36.5¢	34.5¢	34.0¢
Dividend payout of operating earnings	**85%**	85%	95%	90%	88%
Total return per share ($) – note 2	**$2.25**	$0.28	$1.41	$2.60	$1.39
Total shareholder return (%) – note 2	**20%**	2%	13%	30%	18%
Share price – 31 December	**$13.87**	$12.01	$12.10	$11.04	$8.78

1. Operating earnings after tax is a financial measure which is not prescribed by Australian equivalents to International Financial Reporting Standards ("AIFRS") and represent the earnings under AIFRS adjusted for specific non-cash and significant items.
2. Total return per share is the share price movement plus in year cash dividends paid. The total shareholder return percentage is the total return per share divided by the share price at the beginning of the year.

D. Non-executive director remuneration policy

Non-executive directors

Fee pool and other fees

Non-executive directors' base fees for services as directors are determined within an aggregate directors' fee pool limit, which is periodically approved by shareholders. At the date of this report, the pool limit is $1,250,000, being the amount approved by shareholders at the Annual General Meeting held on 22 May 2015.

This remuneration of the non-executive directors is determined by the Board. During the 2016 financial year, annual fees for non-executive directors were $264,000 for the Chairman of the Board and $132,000 for each of the other non-executive directors with an additional $11,000 for the Chairman of the Audit, Risk & Compliance Committee.

Using market information, the Board has determined 2017 fees will be increased to $270,600 for the Chairman and $135,300 for each of the other non-executive directors. The Chair of the Audit, Risk and Compliance Committee will be paid an additional annual fee of $11,275 for the additional work associated with the Committee. The aggregate of these fees is below the current pool limit.

The base fees exclude any remuneration determined by the directors where a director performs additional or special duties for the Company. If a director performs additional or special duties for the Company, they may be remunerated as determined by the directors and that remuneration can be in addition to the limit mentioned above. No fees for additional or special duties were paid to non-executive directors holding office during the years ended 31 December 2016 and 31 December 2015 other than Richard Davis who received $8,624 in 2015.

Directors are entitled to be reimbursed for all reasonable costs and expenses incurred by them in the performance of their duties as directors.

Equity participation

Non-executive directors may receive options as part of their remuneration, subject only to shareholder approval. No options are held by any non-executive director at the date of this report.

Non-executive directors may participate in the Company's DESP or PLTIP on a fee sacrifice basis. No shares or options have been issued or allocated to non-executive directors under either plan.

During 2009, the Board resolved that with effect from 1 January 2009, non-executive directors of InvoCare Limited be required 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 directors be allowed up to three years to accumulate the required shareholding. At the date of this report, all non-executive directors, with the exception of Robyn Stubbs who was appointed on 1 January 2017, have equity interests in the Company meeting this requirement.

Directors' equity holdings are set out under the heading "Information on directors" starting on page 16 of the Directors' Report and in Note 7: "Key Management Personnel Disclosures" on page 67 of the notes to the financial statements.

Retiring allowances

No retiring allowances are paid to non-executive directors.

Superannuation

Where relevant, fees paid to non-executive directors are inclusive of any superannuation guarantee charge and, at the discretion of each non-executive director, may be paid into superannuation funds.

E. Details of Remuneration

Details of the remuneration of the directors and the executive key management personnel of the Group are set out in the following table.

		Short-term employee benefits			Post employment benefits	Other long-term benefits	Share-based payments			
	Year	Cash salary or fee Note 1	Short-term cash bonus Note 2	Non-monetary benefits Notes 3	Super-annuation Note 4	Long service leave Note 5	LTI shares at risk Note 6	LTI shares forfeited Note 7	Total Statutory Remuneration Note 8	Executives' Actual Remuneration Note 9
		$	$	$	$	$	$	$	$	$
Non-executive directors										
Richard Fisher	**2016**	**241,096**	**-**	**-**	**22,904**	**-**	**-**	**-**	264,000	
(Chairman)	2015	210,959	-	-	20,041	-	-	-	231,000	
Christine Clifton	**2016**	**120,548**	**-**	**-**	**11,452**	**-**	**-**	**-**	132,000	
	2015	115,068	-	-	10,932	-	-	-	126,000	
Richard Davis	**2016**	**120,548**	**-**	**-**	**11,452**	**-**	**-**	**-**	132,000	
	2015	115,068	-	-	10,932	-	-	-	126,000	
Aliza Knox	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	
(resigned 31 August 2015)	2015	84,000	-	-	-	-	-	-	84,000	
Joycelyn Morton	**2016**	**130,594**	**-**	**-**	**12,406**	**-**	**-**	**-**	143,000	
(appointed 19 August 2015)	2015	42,464	-	-	4,034	-	-	-	46,498	
Roger Penman	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	
(resigned 15 December 2015)	2015	34,125	-	-	-	-	-	-	34,125	
Gary Stead	**2016**	**120,548**	**-**	**-**	**11,452**	**-**	**-**	**-**	132,000	
(appointed 01 September 2014)	2015	115,068	-	-	10,932	-	-	-	126,000	
Executive directors										
Martin Earp	**2016**	**764,991**	**405,211**	**55,170**	**26,941**	**5,351**	**309,929**	**-**	**1,567,593**	**1,259,146**
(appointed 30 March 2015)	2015	572,739	295,326	26,531	22,730	2,630	81,115	-	**1,001,071**	920,067
Andrew Smith (note 12)	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(contract ended 30 April 2015)	2015	231,756	44,072	12,409	8,667	4,419	259,556	-	**560,879**	1,612,326
Other key management personnel										
Phillip Friery	**2016**	**306,510**	**120,097**	**35,730**	**17,877**	**14,222**	**138,695**	**-**	**633,131**	**561,952**
	2015	369,123	158,636	35,801	19,205	8,507	104,351	(128,636)	566,987	701,518
Greg Bisset	**2016**	**389,297**	**125,704**	**26,723**	**30,001**	**12,987**	**166,832**		**751,544**	**689,546**
	2015	361,581	168,612	27,393	30,003	12,447	136,291	(108,700)	627,627	779,967
Josée Lemoine	**2016**	**139,499**	**66,428**	**7,298**	**8,651**	**680**	**29,652**	**-**	**252,208**	**217,894**
	2015	-	-	-	-	-	-	-	-	-
Wee Leng Goh (note 10)	**2016**	**274,704**	**50,679**	**5,790**	**14,573**	**-**	**91,006**	**-**	**436,752**	**403,290**
	2015	259,579	56,343	5,753	14,481	-	68,358	(81,827)	322,687	416,251
Graeme Rhind (note 11)	**2016**	**223,544**	**35,417**	**20,339**	**11,376**	**-**	**93,861**	**-**	**384,537**	**336,357**
	2015	232,993	13,451	13,305	12,978	-	51,791	-	324,518	335,041

Notes to Remuneration Table:

1. The total cost of fees and salary, including annual leave taken and the increase or decrease in the annual leave provision applicable to that individual.
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 on page 33.
3. The cost to the Company, including any fringe benefits tax, for the provision of fully maintained cars, and other items.
4. Contributions to superannuation.
5. Long service leave accruals in accordance with relevant Australian Accounting Standards.
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 share and rights grants made in the current and past financial years. Subject to meeting the vesting conditions of the grants, the shares or rights will vest, or be forfeited, in future financial years.

7. The reversal in the current financial year, in accordance with Australian Accounting Standards, previous years' amortisation expense for long-term incentive shares granted in earlier years but which were forfeited in the current financial year because vesting conditions were not met.
8. Total statutory remuneration is calculated and disclosed in accordance with the Corporations Act and Australian Accounting Standards.
9. For information purposes and comparison with the total statutory remuneration, this column shows the executives' remuneration which actually crystallised during the year, including salary, superannuation, leave entitlements paid and accrued, short-term incentives payable in respect of the financial year, the market value at vesting date of long-term incentive shares granted in previous years which vested during the year and other benefits, including termination benefits.
10. Wee Leng Goh, Chief Executive Officer of Singapore Casket Company, received total remuneration of SG$448,630 (2015:SG$333,563), which has been converted to Australian dollars at the average exchange rate for the year of 0.9556 (2015: 0.9676).
11. Graeme Rhind, Chief Operating Officer of New Zealand, received total remuneration of NZ$410,455 (2015:NZ$349,514), which has been converted to Australian dollars at the average exchange rate for the year of 0.9618 (2015: 0.9284).
12. Andrew Smith stepped down as Chief Executive Officer on 30 April 2015 and is therefore no longer a KMP.

F. Service Agreements

Chief Executive Officer

Remuneration and other terms of employment for the CEO, Martin Earp, have been formalised in a service agreement, which may be updated from time to time. The service agreement specifies that employment commenced on 30 March 2015, the role of CEO was assumed on 1 May 2015 and, subject to agreement to extend the term, the contract ends on 30 March 2018. The agreement provides for provision of salary, superannuation, short-term performance related cash bonuses, long-term performance related share-based bonuses and other benefits.

The total remuneration package is reviewed annually and the latest review effective from 1 January 2017 provides for Martin Earp's remuneration as follows:

- Total fixed remuneration (ie. annual base salary, superannuation and motor vehicle) of $867,825 ("TFR");
- Short-term incentive bonus of up to $446,062, being 51.4% TFR; and
- LTI award under the PLTIP to the value of $520,695, being 60.0% of TFR.

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

- EBITDA achievement (65% weighting) – with no STI earned until 95% of EBITDA budget is achieved at which level 50% of STI is payable, with no further payment until 100% budget achievement;
- Culture programme roll out (15% weighting) – assessed by external consultant review of success; and
- 2017 Network and Brand Optimisation roll out (20% weighting)

The Board intends seeking the approval of shareholders at the next AGM for the CEO's LTI awards.

The People, Culture & Remuneration Committee and Board have the discretion to provide additional performance incentives. Further details of the share-based remuneration are set out in Section G - Share-based Compensation.

Former Chief Executive

At the Annual General Meeting held on 20 May 2016, shareholders approved the cash settlement of long term incentive shares subject to the satisfaction of the original vesting attaching to those rights. Accordingly, Mr Smith was paid a total of $157,000 before tax during 2016 for the shares that would have otherwise vested and the STI approved at the same meeting.

The relevant tests have been applied to the unvested grants that existed and a further 16,893 units will vest on 23 February 2017. Using the closing share price on 31 December 2016 that total value of the payment would be approximately $234,000. There are a further 24,257 shares to be tested with 16,698 to be tested in February 2018 and 7,559 in February 2019.

Other Senior Executives

Remuneration and other terms of employment for each of the other Senior Executives are formalised in service agreements or letters of appointment as varied from time to time.

The senior executives' total remuneration package is reviewed annually by the People, Culture & Remuneration Committee and Board and provides for remuneration to include:

- TFR;
- short-term incentive bonus averaging 42% of TFR with no retesting to recover any previous year shortfall; and
- LTI awards averaging 38% of TFR.

Termination Arrangements for Senior Executives

Up to six months' notice or payment in lieu of notice is generally required in the event of termination by the company. The company may terminate the employee immediately and without notice in the case of misconduct.

If the employee resigns, the employee must generally give six months' notice.

Termination benefits are limited to statutory leave entitlements, unless determined otherwise by the People, Culture & Remuneration Committee and Board. Unless the Board exercises its discretion, upon termination for any reason, unvested LTI awards will be forfeited. The Board proposes putting a resolution dealing with termination benefit arrangements to shareholders at the next AGM. The approval sought will cover the following items:

- payment in lieu of notice of termination under individual executive contracts of employment;
- the cash component of STI awards, at the Board's discretion where the termination was not "for cause";
- at the discretion of the Board where the termination is due to retirement, death, total and permanent disability and bona fide redundancy, the option to allow LTI awards to remain on foot and be tested in line with the rules established at the time of grant; and
- superannuation benefits.

Except for the CEO who is not subject to any post-employment restraints, other Senior Executives are generally subject to post-employment restrictions for up to twelve months after employment termination without consideration paid for the restraint.

Non-executive directors

On appointment to the Board, all non-executive directors receive a letter of appointment which summarises the Board policies and terms, including compensation, relevant to the office of director.

G. Share-based Compensation

Details of the LTI share and LTI share rights grants, vesting and forfeits for the Chief Executive Officer and other key management personnel are set out below.

	Year of grant	Final year vesting may occur (note1)	Number of shares or rights granted	Value at grant date (note 2)	Number vested during year	Total number vested	Vested %	Maximum value yet to vest (note 3)
Martin Earp	2015	2020	17,410	$239,200	-	-	-	$239,200
	2016	2021	10,617	$128,250	-	-	-	$137,702
Phillip Friery	2012	2017	8,098	$64,334	2,452	7,850	97%	$1,970
	2013	2018	9,617	$105,140	1,715	4,921	51%	$51,327
	2014	2019	9,483	$107,768	3,161	3,161	33%	$71,818
	2015	2020	8,079	$111,001	-	-	-	$111,001
	2016	2021	6,644	$80,258	-	-	-	$86,173
Josée Lemoine	2016	2021	2,931	$35,410	-	-	-	$38,015
Greg Bisset	2012	2017	16,088	$127,803	4,871	15,596	97%	$3,914
	2013	2018	12,212	$133,525	2,177	6,248	51%	$65,186
	2014	2019	12,044	$136,863	4,014	4,014	33%	$91,221
	2015	2020	10,260	$140,969	-	-	-	$140,969
	2016	2021	7,457	$90,079	-	-	-	$96,717
Wee Leng Goh	2012	2017	5,081	$39,432	1,537	4,925	97%	$2,797
	2013	2018	4,124	$45,075	735	2,109	51%	$33,890
	2014	2019	4,607	$52,336	1,374	1,374	33%	$48,696
	2015	2020	4,074	$55,977	-	-	-	$57,375
	2016	2021	4,155	$49,259	-	-	-	$51,794
Graeme Rhind	2012	2017	4,536	$35,199	1,373	4,397	97%	$2,371
	2013	2018	3,464	$37,862	617	1,771	51%	$27,917
	2014	2019	4,011	$45,565	1,140	1,140	33%-	$40,896
	2015	2020	3,422	$47,018	-	-	-	$47,245
	2016	2021	2,858	$35,238	-	-	-	$38,398

1. Under the terms of the respective year's LTI grants, unvested shares or rights may vest in whole or in part in any year from 2016 up to the final year shown for each grant year.
2. The value at grant date is based upon the share price at the time of grant. In accordance with Australian Accounting Standards, the original grant value of LTI shares is the amount amortised as an expense over the relevant future vesting

periods. In the case of LTI rights 2016 and the overseas based Wee Leng Goh and Graeme Rhind, the amount expensed over the relevant future vesting periods takes account of value changes of the rights using the Black-Scholes / Merton valuation methodology.

3. The maximum value of the original grant yet to vest. LTI shares are valued at original grant value. LTI rights for 2016 and for the overseas based Wee Leng Goh and Graeme Rhind are valued using the Black-Scholes / Merton valuation methodology. Performance conditions must be met before vesting and, if not, the minimum that will vest could be nil.

Details of the LTI options grants, vesting and forfeits for the Chief Executive Officer and other key management personnel are set out below.

	Year of grant	Final year vesting may occur (note1)	Number of options granted	Value at grant date (note 2)	Number vested during year	Total number vested	Vested %	Maximum value yet to vest (note 3)
Martin Earp	2016	2021	160,313,	$384,750	-	-	-	$537,049
Phillip Friery	2016	2021	33,441	$80,258	-	-	-	$112,027
Josée Lemoine	2016	2021	14,754	$35,410	-	-	-	$49,426
Greg Bisset	2016	2021	37,533	$90,079	-	-	-	$125,736
Wee Leng Goh	2016	2021	20,946	$49,259	-	-	-	$67,771
Graeme Rhind	2016	2021	14,416	$35,238	-	-	-	$49,933

1. Under the terms of the respective year's LTI grants, unvested shares or rights may vest in whole or in part in any year from 2016 up to the final year shown for each grant year.
2. The value at grant date is based upon the share price at the time of grant. In accordance with Australian Accounting Standards, the original grant value of LTI shares is the amount amortised as an expense over the relevant future vesting periods. In the case of LTI rights for the overseas based Wee Leng Goh and Graeme Rhind, the amount expensed over the relevant future vesting periods takes account of value changes of the rights using the Black-Scholes / Merton valuation methodology.
3. The maximum value of the original grant yet to vest. LTI shares are valued at original grant value. LTI rights for 2016 and for the overseas based Wee Leng Goh and Graeme Rhind are valued using the Black-Scholes / Merton valuation methodology. Performance conditions must be met before vesting and, if not, the minimum that will vest could be nil.

The number of ordinary shares in the Company, or share appreciation rights, held during the year by each director of InvoCare Limited and other key management personnel are summarised in Note 7 on page 67.

H. Use of remuneration consultants

During the year, the People, Culture & Remuneration Committee requested support from external consultants to provide remuneration benchmarks for selected Senior Executives and to understand best practice principles for remuneration report writing. This advice did not constitute a "remuneration recommendation" as defined in the Corporations Act 2001 (Cth).

The number of ordinary shares in the Company, or share appreciation rights, held during the year by each director of InvoCare Limited and other key management personnel are summarised in Note 7 on page 67.

Indemnifying officers or auditor

During the financial year, InvoCare paid a premium to insure directors and officers of the consolidated entity. The insurance policy specifically prohibits disclosure of the nature and liability covered and the amount of the premium paid.

No indemnity has been provided to the auditor of the Company in its capacity as auditor of the Company.

Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Non-audit services

The directors are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

The following fees for non-audit services were paid / payable to the external auditor (PricewaterhouseCoopers) during the year ended 31 December 2016:

	$
Australian Firm	
Assurance services	26,350
Taxation services	51,250
Other services	69,500
Non-Australian Firms	
Taxation services	63,763
Other services	17,144
Total	228,007

Auditor's Independence Declaration

The copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 40.

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.

Signed in accordance with a resolution of the Board of Directors.

Richard Fisher
Director

Martin Earp
Director

Dated this 23rd day of February 2017

pwc

Auditor's Independence Declaration

As lead auditor for the audit of InvoCare Limited for the year ended 31 December 2016, 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.

Brett Entwistle
Partner
PricewaterhouseCoopers

Sydney
23 February 2017

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Financial report

InvoCare Limited and Controlled Entities

Notes to the Financial Statements

InvoCare Limited and Controlled Entities
Consolidated Income Statement
For the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
Revenue from continuing operations	4	**460,834**	445,941
Finished goods, consumables and funeral disbursements		**(127,025)**	(125,445)
Employee benefits expense		**(121,961)**	(115,446)
Employee related and on-cost expenses		**(28,797)**	(26,885)
Advertising and public relations expenses		**(16,530)**	(16,715)
Occupancy and facilities expenses		**(28,454)**	(28,155)
Motor vehicle expenses		**(7,881)**	(8,824)
Other expenses		**(17,907)**	(19,045)
		112,279	105,426
Depreciation and amortisation expenses	5	**(21,335)**	(20,180)
Intangible assets impairment charge	5	**(154)**	-
Cemetery land impairment reversal	5	**-**	5,400
Financial assets impairment charge	5	**-**	(2,635)
Finance costs	5	**(13,555)**	(14,786)
Interest income		**964**	722
Net gain on undelivered prepaid contracts	15	**22,928**	7,527
Acquisition related costs		**(79)**	(70)
Net gain on disposal of non-current assets		**(676)**	312
Profit before income tax		**100,372**	81,716
Income tax expense	6	**(29,324)**	(26,747)
Profit from continuing activities		**71,048**	54,969
Profit for the year		**71,048**	54,969
Profit is attributable to:			
Equity holders of InvoCare Limited		**70,949**	54,844
Non-controlling interests		**99**	125
		71,048	54,969

	Notes	2016	2015
Earnings per share for profit attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents per share)	11	**64.7**	50.1
Diluted earnings per share (cents per share)	11	**64.6**	50.1

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

InvoCare Limited and Controlled Entities
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
Profit for the year		**71,048**	54,969
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges, net of tax	26	**1,048**	1,179
Changes in foreign currency translation reserve, net of tax	26	**1,083**	(551)
Other comprehensive income for the year, net of tax		**2,131**	628
Total comprehensive income for the year		**73,179**	55,597
Total comprehensive income for the year is attributable to:			
Equity holders of InvoCare Limited		**73,080**	55,472
Non-controlling interests		**99**	125
		73,179	55,597

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

InvoCare Limited and Controlled Entities
Consolidated Balance Sheet
For the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	12	**11,528**	8,679
Trade and other receivables	13	**48,556**	41,139
Inventories	14	**25,738**	24,451
Prepaid contract funds under management	15	**39,260**	35,066
Property held for sale	18 (c)	**2,704**	3,499
Deferred selling costs		**1,536**	1,299
Total current assets		**129,322**	114,133
Non-current assets			
Trade and other receivables	13	**27,976**	22,881
Other financial assets		**4**	4
Property, plant and equipment	18	**332,008**	322,248
Prepaid contract funds under management	15	**433,796**	387,218
Intangible assets	19	**152,495**	152,751
Deferred selling costs		**9,590**	9,374
Total non-current assets		**955,869**	894,476
Total assets		**1,085,191**	1,008,609
LIABILITIES			
Current liabilities			
Trade and other payables	21	**44,671**	39,313
Derivative financial instruments	20	**966**	1,130
Current tax liabilities		**9,935**	10,111
Prepaid contract liabilities	15	**37,595**	34,954
Deferred revenue		**10,243**	8,660
Provisions	23	**14,511**	14,318
Total current liabilities		**117,921**	108,486
Non-current liabilities			
Trade and other payables	21	**91**	174
Borrowings	22	**234,455**	230,772
Derivative financial instruments	20	**1,774**	3,062
Deferred tax liabilities	6 (d)	**41,062**	36,420
Prepaid contract liabilities	15	**400,433**	373,494
Deferred revenue		**52,216**	50,457
Provisions	23	**3,029**	2,306
Total non-current liabilities		**733,060**	696,685
Total liabilities		**850,981**	805,171
Net assets		**234,210**	203,438
EQUITY			
Contributed equity	25	**134,914**	133,694
Reserves	26	**7,344**	5,529
Retained profits	26	**90,815**	63,054
Parent entity interest		**233,073**	202,277
Non-controlling interests	27	**1,137**	1,161
Total equity		**234,210**	203,438

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

InvoCare Limited and Controlled Entities
Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

	Notes	Contri-buted equity $'000	Reserves $'000	Retained profits $'000	Total	Non con-trolling interests $'000	Total equity $'000
		Attributable to Owners of InvoCare Limited					
Balance at 1 January 2016		**133,694**	**5,529**	**63,054**	**202,277**	**1,161**	**203,438**
Total comprehensive income for the year		-	**2,131**	**70,949**	**73,080**	**99**	**73,179**
Transactions with owners in their capacity as owners:							
Dividends paid	10	**-**	**-**	**(43,188)**	**(43,188)**	**(123)**	**(43,311)**
Deferred employee share plan shares vesting during the year	26	**866**	**(866)**	**-**	**-**	**-**	**-**
Transfer of shares from the deferred plan to the InvoCare Exempt Share Plan Trust	25	**354**	**-**	**-**	**354**	**-**	**354**
Employee shares – value of services	26	**-**	**550**	**-**	**550**	**-**	**550**
Balance at 31 December 2016		**134,914**	**7,344**	**90,815**	**233,073**	**1,137**	**234,210**
Balance at 1 January 2015		131,682	6,756	48,367	186,805	1,154	187,959
Total comprehensive income for the year		-	628	54,844	55,472	125	55,597
Transactions with owners in their capacity as owners:							
Dividends paid	10	-	-	(40,157)	(40,157)	(118)	(40,275)
Deferred employee share plan shares vesting during the year	26	1,684	(1,684)	-	-	-	-
Transfer of shares from the deferred plan to the InvoCare Exempt Share Plan Trust	25	328	-	-	328	-	328
Employee shares – value of services	26	-	(171)	-	(171)	-	(171)
Balance at 31 December 2015		133,694	5,529	63,054	202,277	1,161	203,438

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers (including GST)		**508,492**	489,769
Payments to suppliers and employees (including GST)		**(400,828)**	(395,007)
Other revenue		**9,359**	7,856
		117,023	102,618
Interest received		**25**	83
Finance costs		**(13,233)**	(14,380)
Income tax paid		**(25,319)**	(23,690)
Net cash inflow from operating activities	31	**78,496**	64,631
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**4,510**	1,138
Purchase of subsidiaries and other businesses including acquisition costs, net of cash acquired		**(1,270)**	(7,076)
Purchase of property, plant and equipment		**(30,321)**	(22,035)
Payments to funds for pre-paid contract sales		**(46,669)**	(35,338)
Receipts from funds for pre-paid contracts performed		**39,253**	37,022
Net cash outflow from investing activities		**(34,497)**	(26,289)
Cash flows from financing activities			
Proceeds from borrowings		**84,735**	45,023
Repayment of borrowings		**(82,500)**	(44,953)
Payment of dividends – InvoCare Limited shareholders		**(43,188)**	(40,157)
Dividends paid to non-controlling interests in subsidiaries		**(123)**	(118)
Net cash outflow from financing activities		**(41,076)**	(40,205)
Net increase in cash and cash equivalents		**2,923**	(1,863)
Cash and cash equivalents at the beginning of the year		**8,679**	10,488
Effects of exchange rate changes on cash and cash equivalents		**(74)**	54
Cash and cash equivalents at the end of the year	12	**11,528**	8,679

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1: Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of InvoCare Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

(i) Compliance with IFRS

The consolidated financial statements and notes of InvoCare Limited also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(ii) Historical cost convention

These financial statements have been prepared on an accruals basis under the historical cost convention, as modified by the revaluation to fair value of financial assets and liabilities (including derivative instruments).

(iii) Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the exercise of judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed at Note 37.

(iv) Comparatives

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

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of InvoCare Limited ("Company'' or "parent entity'') as at 31 December 2016 and the results of all subsidiaries for the year then ended. InvoCare Limited and its subsidiaries are together referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including structured entities) 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.

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 1(i)).

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 subsidiaries are shown separately in the consolidated statement of comprehensive income and balance sheet, respectively.

(ii) Employee share trust

The Group has formed a trust to administer the InvoCare Exempt Employee Share Plan and the InvoCare Deferred Employee Share Plan. These trusts are consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares held by the InvoCare Deferred Employee Share Plan Trust are disclosed as treasury shares and deducted from contributed equity.

Note 1: Summary of Significant Accounting Policies continued

(b) Principles of consolidation continued

(iii) Associates

Associates are entites over which the Group has significant influence but not control or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after intially being recognised at cost.

The Group's share of its associates' post-acquisition profits or losses and its share of post-acqusition movements in reserves is recognised in the statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received from associates are recognised as a reduction in the carrying amount of the investment.

If the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. This reporting is based on the operational location of the business because different economic and cultural factors impact growth and profitability of the segment.

(d) Foreign currency translation

(i) 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.

(ii) 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.

(iii) Group companies

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 income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, 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 income statement, as part of the gain or loss on sale where applicable.

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

Note 1: Summary of Significant Accounting Policies continued

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. 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 is recognised when the funeral, burial, cremation or other services are performed or the goods supplied.

Revenues 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.

The Group enters into prepaid contracts to provide funeral, burial and cremation services in the future and funds received are placed in trust and are not recognised as revenue until the service is performed. Refer to Note 1(n).

Interest income is recognised using the effective interest method.

Dividends are recognised as revenue when the right to receive payments is established.

(f) Deferred selling costs

Selling costs applicable to prepaid funeral service contracts, net of any administrative fees recovered, are expensed when incurred. Direct selling costs applicable to deferred revenue on undelivered memorials and merchandise are deferred until the revenue is recognised.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

(h) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

Note 1: Summary of Significant Accounting Policies continued

(i) Business combinations and acquisitions of assets

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. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. 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 (refer to Note 1(p)). 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. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Any variations in the initial estimates of deferred consideration and the final amount payable are remeasured through the statement of comprehensive income.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The indirect costs of completing business combinations are recorded in the statement of comprehensive income.

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently 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 whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversals of the impairment at each reporting date.

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Any bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful receivables.

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 or crematorium contracts for sale of interment or inurnment rights and associated memorials and other merchandise. Receivables arising from cemetery or crematorium 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.

The carrying amount of the asset is reduced through the use of a provision for doubtful receivables account and the amount of the loss is recognised in the statement of comprehensive income within "other expenses". When a trade receivable is uncollectable, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against sundry revenue in the statement of comprehensive income. Details of the impaired receivables, provision account movements and other details are included in Notes 2 and 13.

(m) Inventories

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.

Note 1: Summary of Significant Accounting Policies continued

(n) Prepaid contracts

Prepaid contracts are tripartite agreements whereby the Group agrees to deliver a specified funeral, cremation or burial service 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 the Group. 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 at the current selling price of the service to be delivered and increases this liability to reflect the change in selling prices to reflect the best estimate of the expenditure required to settle the obligation at the end of each reporting period.

When the service is delivered, the liability is derecognised. The initially recorded liability amount is included in revenue and the price increases recognised since initial recognition are recorded as a reduction in the cost of service delivery.

(o) 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 income statement during the financial period in which they are incurred.

Cemetery land is carried at cost less accumulated amortisation and impairment write-downs. The consolidated entity 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 consolidated entity, 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 income statement.

(p) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. 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 (Note 19).

(ii) Trademarks and brand names

Trademarks and brand names 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 10- years.

(q) 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.

(r) 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 income statement 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.

Refer to Notes 2 and 22 for further information on borrowings.

Note 1: Summary of Significant Accounting Policies continued

(s) Derivative financial instruments

The Group uses derivative financial instruments such as cross currency and 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 remeasured 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 fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 20. Movements in the hedging reserve in shareholders' equity are shown in Note 26. 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 12- months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12- months.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) 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 income statement.

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 income statement.

(ii) 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.

(t) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick 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. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) 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.

Note 1: Summary of Significant Accounting Policies continued

(t) Employee benefits continued

(iii) 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; or
- past practices give clear evidence of a constructive obligation.

(iv) Retirement benefits

Employees of the Group are entitled to benefits on retirement, disability or death from the Group sponsored defined contribution superannuation plans. Fixed statutory contributions are made by the Group to these plans and are recognised as an expense as they become payable. The Group's liability is limited to these contributions.

(v) Share-based payments

The Group provides benefits to certain employees, including key management personnel, in the form of share-based payments, whereby employees render services in exchange for shares, share appreciation rights or options over shares. Details of the employee share, share appreciation or option plans are set out in Note 8.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date granted. Cash settled share based payments are valued at each reporting date using a Black Scholes valuation technique. Increases or decreases in value are recorded as part of employee benefits expense. The cost is recognised as an employee benefit expense in the income statement, with a corresponding increase in equity, over the period during which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become unconditionally entitled to the award (the vesting date).

At each balance sheet date, the Group revises its estimate of the number of awards that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income with a corresponding adjustment to equity.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

(v) Dividends

Provision is made for the amount of any dividend declared being appropriately authorised and no longer at the discretion of the Company on or before the end of the financial year but not distributed at balance date.

(w) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

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 for no consideration in relation to dilutive potential ordinary shares.

Note 1: Summary of Significant Accounting Policies continued

(x) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of the GST, except where the amount of the GST incurred is not recoverable from the taxing authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxing authority, are presented as operating cash flows.

(y) Parent entity financial information

The financial information for the parent entity, InvoCare Limited, disclosed in Note 35 has been prepared on the same basis as the consolidated financial statements, except investments in subsidiaries and associates which are accounted for at cost in the financial statements of InvoCare Limited. Dividends received from associates are recognised as a reduction in the carrying value of the investment in associates.

(z) 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.

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods. The Group's assessments of the impacts of these new standards and interpretations are set out below.

(i) AASB 15 Revenue from Contracts with Customers

A preliminary analysis of AASB 15 *Revenue from Contracts with Customers* has been completed. This has demonstrated that with the exception of the accounting for Prepaid Contracts no other material changes are expected to result. In regards to Prepaid Contracts, given the time frame between contract inception and contract redemption, financing will be recognised on the contract liability. The objective of this being to adjust the consideration paid so that revenue is recognised at an amount that reflects the price that a customer would have paid for the services if the customer had paid cash for those services when provided. This differs from the current practice of recognising revenue at the consideration paid by the customer at contract inception. Further, costs will be recognised for providing the services as incurred unless they qualify for capitalisation as a fulfilment or acquisition cost.

The Group currently recognise revenue for 10% of Prepaid Contract value at inception as compensation for the cost of marketing/preparing the contract, however, under the new standard, mobilisation and sales/marketing efforts would not qualify as a distinct service provided to the customer. As such, the revenue will be deferred until the service is provided. Certain of the associated mobilisation and fulfilment costs may be allowed to be capitalised.

The Group is continuing its analysis of the changes to enable the expected financial impacts to be quantified.

(ii) AASB 9 Financial Instruments

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard is not applicable until 1 January 2018. After a detailed assessment, management believes that the new standard is unlikely to have a material impact on the Group's current accounting practices.

(iii) AASB 16 Leases

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard is not applicable until 1 January 2019 but is available for early adoption.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of $44,089,000. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Note 2: Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk, price risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge risk exposures. The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and price risk and ageing analysis for credit risk.

Strategic risk management is carried out by the Board of Directors. The Audit, Risk and Compliance Committee, which operate under policies approved by the Board, is responsible for operational and financial risk management, respectively. 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 Group holds the following financial assets and liabilities:

	2016 $'000	2015 $'000
Financial assets		
Cash and cash equivalents	**11,528**	8,679
Trade and other receivables *	**68,277**	55,759
Prepaid contract funds under management	**473,056**	422,284
Other financial assets	**4**	4
	552,865	486,726
Financial liabilities		
Trade and other payables ^	**43,965**	39,487
Borrowings	**234,455**	230,772
Derivative financial instruments	**2,740**	4,192
	281,160	274,451

* excluding prepayments and security deposits/^ Excluding unamortised balance of compensation received in relation to a leased premises

(a) Market risk

(i) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. All 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 broad policy of the Group 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. The bank loans of the Group outstanding during the year had an effective average interest rate of 4.64% (2015: 5.38%) inclusive of swaps and margins but excluding establishment fees.

At balance date, interest rate swaps for 71% (2015: 64%) of borrowings were in place. Of these interest rate swaps 28% (2015: 19%) were denominated in New Zealand dollar fixed interest instruments, with the balance denominated in Australian dollars. As at 31 December 2016 the weighted average fixed interest rate payable on the interest rate swaps is 3.45% (2015: 4.38%) and the weighted average variable rate receivable as at 31 December 2016 is 1.85% (2015: 2.44%).

The following variable rate borrowings and interest rate swap contracts are outstanding:

	31 December 2016		31 December 2015	
	Weighted average interest rate	Balance $'000	Weighted average interest rate	Balance $'000
Bank loans	**4.64%**	**235,181**	5.38%	238,819
Interest rate swaps (notional principal)	**3.45%**	**166,787**	4.38%	148,124
Net exposure to cash flow interest rate risk		**401,968**		386,943

Note 2: Financial Risk Management continued

(a) Market risk continued

(i) Cash flow and fair value interest rate risk continued

The notional principal amounts, including forward start interest rate swap contracts, and periods of expiry of the interest rate swap contracts are as follows:

	2016 $'000	2015 $'000
Less than one year	60,000	60,000
One to two years	31,191	60,000
Two to three years	30,000	28,110
Three to four years	75,596	30,000
Four to five years	30,000	30,000
	226,787	208,110

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. An increase of 100 basis points in Australian and New Zealand rates (2015: 100 basis points) and 50 basis points in Singapore (2015: 50 basis points) in the interest rate would result in additional interest expense after tax of $415,000 (2015: $395,000). A decrease of 100 basis points in Australian and New Zealand rates (2015: 100 basis points) and 50 basis points in Singapore (2015: 50 basis points) in the interest rate would result in an after tax gain of $415,000 (2015: $395,000). 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 139 *Financial Instruments: Recognition and Measurement.*

The interest rate swap contracts were all judged to be effective at 31 December 2016 and the movements in the fair value of these instruments have been quarantined in equity. If interest rates decline by 100 basis points (2015: 100 basis points) a further $1,144,000 (2015: $1,179,000) net of tax would have been charged to equity and a 100 basis points increase in interest rates would have resulted in a credit to equity of $1,144,000 (2015: $1,179,000) net of tax.

The overall impact on the Group has been summarised on page 61.

The Group's cash and cash equivalents held in Australia are interest bearing. At 31 December 2016 the weighted average interest rate was 0.00% (2015: 0.67%). If interest rates changed by 100 basis points (2015: 100 basis points) the Group's after tax result would increase or decrease by $53,000 (2015: $44,000).

(ii) Foreign exchange risk

The Group rarely undertakes significant commercial transactions in currencies other than in the functional currency of the operating entity.

Foreign exchange 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 exchange risk relates to the investments in controlled entities in New Zealand, Singapore, the USA and north Asia. This exposes the Group to foreign currency risk on the assets and liabilities. Borrowings have been made in New Zealand and Singapore dollars to provide a natural hedge against the risk of changes in exchange rates.

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

	2016 $'000		2015 $'000	
	New Zealand Dollars	Singapore Dollars	New Zealand Dollars	Singapore Dollars
Borrowings	53,381	25,800	41,696	26,136
Derivatives	1,132	-	1,126	-

Note 2: Financial Risk Management continued

(a) Market risk continued

(ii) Foreign exchange risk continued

The Group has no significant unhedged foreign exchange exposures at 31 December 2016. The Singapore dollar borrowing is undertaken in Australia and designated as the hedge of a net investment in a subsidiary. The New Zealand dollar borrowings are undertaken in New Zealand.

(iii) Price risk

The Group is the ultimate beneficiary of funds invested in various prepaid contract trusts, as described in Note 1 (n). 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. Based on the asset allocation as at 31 December 2016 and 31 December 2015 the following changes in investment returns are reasonably probable.

	31 December 2016		31 December 2015	
	Increase	**Decrease**	Increase	Decrease
Asset class				
Equities (plus or minus 10%)	**6,150**	**(6,150)**	7,179	(7,179)
Property (plus or minus 3%)	**4,541**	**(4,541)**	3,294	(3,294)
Cash and fixed interest (no price risk)	**-**	**-**	-	-
	10,691	**(10,691)**	10,473	10,473

The returns of these funds are recognised in the income statement. An estimated 50% of the funds are expected to be realised over the next 10 years and 90% over about 25 years. In any one year approximately 14% of all Australian funeral services performed by InvoCare have been prepaid; a proportion that has been reasonably constant for many years and is not expected to significantly change in the short term.

InvoCare monitors the asset allocations and investment performance at least quarterly and makes representations, where possible, to those in control of the trusts to mitigate price risks and enhance the returns which will ultimately impact InvoCare's future results.

As the funds are held in trust for relatively long periods, investment strategies take a long-term view for those trusts not restricted to more conservative, capital guaranteed assets. Historically, equities have provided the best long-term returns although the instability of the equity markets has caused a substantial shift in the investment bias towards more conservative property, cash and fixed interest investments. When considering investment strategies the life cycle of the fund is considered so that funds which are closer to the end of their expected life take a more conservation investment stance than those funds continuing to receive new funds.

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

	2016 **%**	2015 %
Equities	**13**	17
Property	**32**	26
Cash and fixed interest	**55**	57

Approximately 85% of InvoCare's prepaid funds under management are with Over Fifty Guardian Friendly Society.

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

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, 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. 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.

Note 2: Financial Risk Management continued

(b) Credit risk continued

(i) Impaired receivables

The total amount of the provision for doubtful receivables was $2,281,000 (2015: $2,268,000). As at 31 December 2016, receivables with a nominal value of $2,945,000 (2015: $3,050,000) had been specifically identified internally or referred to the Group's independent debt collection agent and hence were considered to be impaired. The amount of the provision for doubtful receivables was calculated by applying the historical debt collector's recovery ratio to all debtors over 90 days overdue.

The movement in the provision for impaired receivables is set out in Note 13 - Trade and Other Receivables.

(ii) Receivables past due but not impaired

As of 31 December 2016, trade receivables of $11,928,000 (2015: $8,745,000) were past due but had not been referred to external debt collection agents and hence were considered not to be 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. 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 outcome, the debt is referred to external debt collection agencies.

The ageing of receivables past due but not impaired follows:

	2016 $'000	2015 $'000
One to three months overdue	**6,163**	4,365
Over three months overdue	**8,711**	4,381

(iii) Other receivables

These amounts generally arise from transactions outside the normal operating activities of the Group. Interest is generally not charged on the amounts involved although collateral is generally obtained for larger amounts receivable.

(iv) Interest rate risks

The Group has no exposure to interest rate risk in respect of receivables as they are non-interest bearing.

(c) Liquidity risk

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.

The Group's borrowings are unsecured but subject to negative pledges and the Group has complied with these covenants throughout and at the end of the year. Details of the Group's facilities are as follows:

Note 2: Financial Risk Management continued

(c) Liquidity risk continued

	2016 $'000	2015 $'000
Finance facilities available		
Unrestricted access was available at balance date to the following lines of credit:		
Total facilities		
- unsecured loan facility expiring in two to five years	**290,000**	290,000
- working capital facility expiring within one year	**9,442**	9,685
	299,442	299,685
Used at balance date		
- unsecured loan facility	**235,203**	231,832
- working capital facility	**1,621**	2,416
	236,824	234,248
Unused at balance date		
- unsecured loan facility	**54,797**	58,168
- working capital facility	**7,821**	7,269
	62,618	65,437

The tables below analyse the Group's financial liabilities into the relevant maturity groupings based on their contractual terms. Trade and other payables and borrowings are non-derivative liabilities.

31 December 2016	Less than one year $'000	Two to three Years $'000	More than three Years $'000	Total $'000
Trade and other payables	**44,671**	**91**	**-**	**44,762**
Borrowings	**-**	**153,892**	**81,311**	**235,203**
Derivatives	**-**	**2,225**	**515**	**2,740**

31 December 2015	Less than one year $'000	Two to three Years $'000	More than three Years $'000	Total $'000
Trade and other payables	39,313	174	-	39,487
Borrowings	-	163,332	68,500	231,832
Derivatives	1,130	2,978	84	4,192

The Group's external debt financing is provided by four major banks in Australia and their New Zealand operations, where relevant, through bi-lateral revolver debt facilities totalling $290 million, $120 million expiring in December 2020 and $170 million expiring in December 2018.

The facilities agreements' covenant ratios are calculated on a rolling 12-month basis and have been met at 31 December 2016. The ratio of Net Debt to EBITDA (adjusted for acquisitions) must be no greater than 3.5 and the ratio of EBITDA to net interest must be greater than 3.0.

(d) Capital risk 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; and
- avoid excessive exposure to interest rate fluctuations and debt refinancing risk.

Note 2: Financial Risk Management continued

(d) Capital risk management continued

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 2016, basic EPS was 64.7 cents (2015: 50.1 cents). Operating EPS, which excludes gains and losses on the disposal or impairment of non-current assets and on undelivered prepaid contracts and non-controlling interests, was 50.4 cents (2015: 45.1 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 18% (2015:19%) 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. A shareholder investing $1.00 in the initial public offering (IPO) would have enjoyed a total return of $8.40 or 840% (2015: $7.25 or 725%) up to 31 December 2016.
- 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 2016 dividends represents a payout ratio of 85% (2015: 85%) of operating earnings after tax.
- Monitoring participation in the Dividend Reinvestment Plan: Up to 14% of the Company's shareholders have participated in the DRP since it was first activated in October 2006.
- 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 between 3:1 and 5:1. The Group can sustain and service higher levels of debt than the amount at balance date. 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. At 31 December 2016 the proportion of debt hedged was 78% (2015: 72%). The hedge contracts extend to the second half of 2020.
- Managing refinancing risk: The Group's borrowing facilities were renewed during 2015 and have been split into two tranches across four banks in order to reduce refinancing risk. During 2017, the tranche currently expiring in December 2018 will be renegotiated and the overall value of the facility increased to ensure the Group's growth plans are appropriately funded.

Note 2: Financial Risk Management continued

(e) 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.

31 December 2016		Interest rate risk				Foreign exchange risk			
		- 100 basis points		+ 100 basis points		- 10%		+ 10%	
	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	**11,528**	**(53)**	**-**	**53**	**-**	**-**	**-**	**-**	**-**
Accounts receivable	**68,274**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Prepaid contract funds under management	**473,056**	**(2,760)**	**-**	**2,760**	**-**	**-**	**-**	**-**	**-**
Other financial assets	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities									
Trade and other payables	**43,965**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Borrowings	**234,455**	**(415)**	**-**	**415**	**-**	**(285)**	**3,606**	**233**	**(3,386)**
Derivatives	**2,740**	**-**	**1,144**	**-**	**(1,144)**	**-**	**(3,606)**	**-**	**3,386**
Total increase / (decrease)		**(3,228)**	**1,144**	**3,228**	**(1,144)**	**(285)**	**-**	**233**	**-**

31 December 2015		Interest rate risk				Foreign exchange risk			
		- 100 basis points		+ 100 basis points		- 10%		+ 10%	
	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	8,679	(44)	-	44	-	-	-	-	2
Accounts receivable	55,759	-	-	-	-	-	-	-	-
Prepaid contract funds under management	422,284	(1,385)	-	1,385	-	-	-	-	-
Other financial assets	4	-	-	-	-	-	-	-	-
Financial liabilities									
Trade and other payables	39,487	-	-	-	-	-	-	-	-
Borrowings	230,772	(395)	-	395	-	(133)	1,444	109	(1,432)
Derivatives	4,192	-	1,179	-	(1,179)	-	(1,444)	-	1,432
Total increase / (decrease)		(1,824)	1,179	1,824	(1,179)	(133)	-	109	2

(f) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of derivatives, which are recorded on the balance sheet, are measured using the cumulative dollar offset method.

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards as detailed below:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The fair value of contingent consideration is calculated as the present value of the expected cash flows using a discount rate that reflects the incremental costs of borrowing used to fund the acquisition. If the discount rate was increased by 10% the contingent consideration would reduce by $1,000 (2015: $1,000). Similarly, a 10% decrease in the discount rate results in an increase in contingent consideration of $1,000 (2015: $1,000).

Note 2: Financial Risk Management continued

(f) Fair value estimation continued

	2016 $'000	2015 $'000
Level 2		
Prepaid contract funds under management	**473,056**	422,284
Derivatives financial instruments	**(2,740)**	(4,192)
Level 3		
Contingent consideration	**(283)**	(1,457)

Effective 31 December 2016 prepaid contract funds under management assets have been classified as Level 2 as they are not publically traded. As this is a modification in the application of levels compared to prior years, comparatives have been restated to reflect the change in classification methodology. Management believes that this modification results in a better representation of the classification of levels as it reflects levels for the actual asset held by the Plan, (the fund), instead of the underlying investments held by the fund.

No financial instruments or derivatives are held for trading. The contingent consideration represents expected future payments for business acquisitions which are subject to performance hurdles. The carrying value is calculated by discounting the expected future payments to their present value using the current interest rate on the Group's borrowings.

The carrying value less impairment provisions for trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables. Non-current trade receivables are discounted to their fair value in accordance with the accounting policy outlined in Note 1(l).

Note 3: Segment Information

(a) Description of segments

The operating segments should be based on the management reporting regularly reviewed by the CEO. This reporting is based on the operational location of the business because different economic and cultural factors impact the growth and profitability of the segments.

(b) Segment information provided to the Chief Executive Officer ("CEO")

The segment information provided to the CEO for reportable segments to 31 December 2016 and 31 December 2015 is outlined below.

	Australian Operations	Singapore Operations	New Zealand Operations	Other Operations	Consolidated
	2016	**2016**	**2016**	**2016**	**2016**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Revenue from external customers	**386,924**	**17,236**	**44,246**	**2,253**	**450,659**
Other revenue (excluding interest income)	**9,010**	**463**	**210**	**492**	**10,175**
Operating expenses	**(297,818)**	**(9,543)**	**(35,461)**	**(5,733)**	**(348,555)**
Operating EBITDA	**98,116**	**8,156**	**8,995**	**(2,988)**	**112,279**
Depreciation and amortisation	**(18,103)**	**(530)**	**(2,510)**	**(192)**	**(21,335)**
Intangible assets impairment charge	**-**	**-**	**(154)**	**-**	**(154)**
Finance costs	**(10,527)**	**(652)**	**(2,376)**	**-**	**(13,555)**
Interest income	**935**	**-**	**27**	**2**	**964**
Income tax expense	**(27,695)**	**(1,028)**	**(590)**	**(11)**	**(29,324)**
Total goodwill	**85,780**	**13,992**	**46,380**	**1,721**	**147,873**
Total assets	**944,820**	**42,414**	**93,841**	**4,116**	**1,085,191**
Total liabilities	**759,677**	**28,776**	**61,889**	**639**	**850,981**

	Australian Operations	Singapore Operations	New Zealand Operations	Other Operations	Consolidated
	2015	2015	2015	2015	2015
	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	374,080	16,525	44,337	1,429	436,371
Other revenue (excluding interest income)	8,367	397	704	102	9,570
Operating expenses	(289,895)	(8,951)	(36,398)	(5,271)	(340,515)
Operating EBITDA	92,552	7,971	8,643	(3,740)	105,426
Depreciation and amortisation	(17,090)	(635)	(2,304)	(151)	(20,180)
Cemetery land impairment reversal	5,400	-	-	-	5,400
Financial assets impairment charge	(2,635)	-	-	-	(2,635)
Finance costs	(11,831)	(789)	(2,165)	(1)	(14,786)
Interest income	661	-	61	-	722
Income tax expense	(25,343)	(930)	(457)	(17)	(26,747)
Total goodwill	85,780	14,168	45,323	1,704	146,975
Total assets	886,448	38,181	80,286	3,694	1,008,609
Total liabilities	725,160	28,802	50,697	512	805,171

Note 3: Segment Information continued

Operating EBITDA of $112,279,000 (2015:$105,426,000) is reconciled to profit before tax on the face of the Consolidated Income Statement.

(c) Segment information - accounting policies

The consolidated entity operates in one industry, being the funeral industry, with significant operations in Australia, New Zealand and Singapore and smaller operations in Hong Kong and the USA.

Segment revenues, 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 and goodwill and other intangible assets, net of related provisions. Segment liabilities consist primarily of trade and other creditors 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. Group's operations in Hong Kong and the USA have been aggregated under "Other Operations" in the tables above due to their relatively small size.

Note 4: Revenue from Continuing Operations

	2016 $'000	2015 $'000
Sales revenue		
Sale of goods	**190,216**	178,707
Services revenue	**260,443**	257,664
	450,659	436,371
Other revenue		
Rent	**357**	345
Administration fees	**6,914**	5,623
Sundry revenue	**2,904**	3,602
	10,175	9,570
Total revenue from continuing operations	**460,834**	445,941

Note 5: Expenses

	2016 $'000	2015 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**4,436**	4,382
Property, plant and equipment	**14,323**	13,394
Total depreciation	**18,759**	17,776
Amortisation of non-current assets		
Cemetery land	**540**	389
Leasehold land and buildings	**176**	176
Leasehold improvements	**660**	567
Brand names	**1,200**	1,272
Total amortisation	**2,576**	2,404
Total depreciation and amortisation	**21,335**	20,180
Impairment of other assets		
Cemetery land impairment reversal	**-**	(5,400)
Intangible assets impairment charge	**154**	-
Financial assets impairment charge	**-**	2,635
Total depreciation, amortisation and impairment	**21,489**	17,415
Finance costs		
Interest paid and payable	**11,469**	12,739
Other finance costs	**2,086**	2,047
Total financing costs	**13,555**	14,786
Impairment losses – financial assets		
Trade receivables	**649**	923
Rental expense		
Operating lease rental – minimum lease payments	**11,439**	11,422
Defined contribution superannuation expense	**8,824**	8,396

Note 6: Income Tax

(a) Income tax expense

	2016 $'000	2015 $'000
Current tax	**25,344**	24,207
Deferred tax	**4,259**	1,406
Under / (over) provided in prior years	**(279)**	1,134
Income tax expense attributable to continuing operations	**29,324**	26,747

(b) Reconciliation of income tax expense to prima facie tax payable

	2016 $'000	2015 $'000
Prima facie tax at 30% (2015: 30%) on profit before tax	**30,112**	24,515
Tax effect of amounts which are not deductible/(taxable) in calculation of taxable income		
Impact of previously unrecognised capital losses offsetting capital gains and unrecognised capital losses	**(118)**	(48)
Impact of the eliminations of translation gains / (losses) on intercompany balances in foreign currencies	**30**	(123)
Impact of impairment of financial assets	**43**	790
Acquisition costs not deductible	**-**	27
Revenue losses not recognised	**794**	1,358
Other items (net)	**(319)**	308
	30,542	26,827
Difference in overseas tax rates	**(939)**	(1,214)
Under / (over) provision in prior years	**(279)**	1,134
Income tax expense	**29,324**	26,747

(c) Tax expense relating to items of other comprehensive income

	2016 $'000	2015 $'000
Cash flow hedges	**410**	552

Note 6: Income Tax continued

(d) Deferred tax liability

	2016 $'000	2015 $'000
The deferred tax liability balances comprised temporary differences attributable to:		
Amounts recognised in profit and loss:		
Cemetery land	**29,389**	29,524
Property, plant and equipment	**4,109**	5,208
Deferred selling costs	**3,338**	3,202
Prepayments and other	**364**	960
Brand names	**1,350**	1,675
Prepaid contracts	**10,508**	1,621
Provisions	**(5,889)**	(2,892)
Receivables	**(229)**	(770)
Accruals and other	**(1,068)**	(898)
Amounts recognised directly in equity:		
Cash flow hedge reserve	**(810)**	(1,210)
	41,062	36,420
The net movement in the deferred tax liability is as follows:		
Balance at the beginning of the year	**36,420**	32,275
Net charge to income statement – current period	**4,259**	1,406
Net charge (credit) to income statement – prior periods	**(41)**	602
Amounts recognised due to business combinations net of businesses subsequently sold	**-**	1,481
Amounts recognised directly in equity	**410**	552
Effect of movements in exchange rates	**14**	104
Balance at the end of the year	**41,062**	36,420
Deferred tax (assets) to be settled within 12 months	**(1,481)**	(2,326)
Deferred tax liabilities to be settled after 12 months	**42,543**	38,746
	41,062	36,420

(e) Tax losses

The Group has no unutilised Australian capital losses (2015: $120,000 benefit) at the corporate tax rate of 30% (2015: 30%). The Group has unutilised revenue losses with a potential benefit of US$5,800,000 (2015: US$3,266,000) in foreign jurisdictions although recovery of these losses is highly unlikely.

Note 7: Key Management Personnel Disclosures

(a) Key management personnel compensation

	2016 $	2015 $
Short-term employee benefits	**3,786,464**	3,602,155
Post-employment benefits	**179,086**	164,935
Other long-term benefits	**33,240**	28,003
Share-based payments	**829,975**	382,299
	4,828,765	4,177,392

Detailed remuneration disclosures are provided in the Remuneration Report on pages 27 to 38.

(b) Equity instrument disclosures relating to key management personnel

(i) Shares and share appreciation rights provided as remuneration

Details of shares and share appreciation rights provided as remuneration, together with terms and conditions of the shares and share appreciation rights, can be found in the Remuneration Report starting on pages 27 to 38.

For details of the share options issued please refer to Note 8: Share based payments on page 68.

(ii) Holdings of shares and share appreciation rights

The number of ordinary shares in the Company, or share appreciation rights in the case of overseas based key management personnel, held during the financial year by each director of InvoCare Limited and other key management personnel of the Group, including indirectly by their personally related parties or by the trustee of the InvoCare Deferred Employee Share Plan, are set out below. During the year, Long-term Incentive ("LTI") shares or LTI rights were granted to other key management personnel under the terms of the InvoCare Deferred Employee Share Plan the details of which are outlined in Note 8.

	Balance at start of the year	Granted during year as compensation	Other changes during year	Balance at end of the year
Non-executive Directors				
Richard Fisher	17,389	-	525	17,914
Christine Clifton	112,961	-	-	112,961
Richard Davis	561,607	-	(40,000)	521,607
Gary Stead	6,500	-	115	6,615
Joycelyn Morton	6,000	-	2,205	8,205
Executive Directors				
Martin Earp	17,410	10,617	1,518	29,545
Other key management personnel				
Phillip Friery	64,411	6,644	(19,181)	51,874
Josée Lemoine	-	2,931	-	2,931
Greg Bisset	79,294	7,457	(18,749)	68,002
Wee Leng Goh	13,125	4,155	(3,646)	13,634
Graeme Rhind	11,255	2,858	(3,130)	10,983

(iii) Share options

The number of share options in the Company held during the financial year by key management personnel of the Group are set out below:

	Balance at start of the year	Granted during year as compensation	Other changes during year	Balance at end of the year
Executive Directors				
Martin Earp	-	160,313	-	160,313
Other key management personnel				
Phillip Friery	-	33,441	-	33,441
Josée Lemoine	-	14,754	-	14,754
Greg Bisset	-	37,533	-	37,533
Wee Leng Goh	-	20,946	-	20,946
Graeme Rhind	-	14,416	-	14,416

Note 7: Key Management Personnel Disclosures continued

(c) Loans to key management personnel

There were no loans to directors of the Company or other key management personnel.

(d) Other transactions with key management personnel

There were no transactions with key management personnel of the Group, including their personally related parties, during 2016 or 2015.

Note 8: Share-based Payments

The Group provides benefits to employees (including Key Management Personnel) through share-based incentives. Four plans are currently in operation.

(a) Performance Long-term Incentive Plan ("PLTIP")

This plan provides share rights and options to senior staff and is heavily weighted towards options so employees are incentivised to maximise shareholder value in the longer term. The plan was introduced during 2016 and is described more fully in the Remuneration Report. For senior staff it replaces the schemes previously used and more fully described below. As the plan permits settlement in either equity or cash, at the Board's discretion, it is treated as a cash-settled plan. The fair value of the instruments in the plan was determined at 31 December 2016 based on the following inputs.

	Options	Rights
Share price at Grant Date	$12.08	$12.08
Share Price at 31 December 2016	$13.87	$13.87
Exercise Price	$12.08	-
Annualised Risk Free Rate	2.76%	2.76%
Volatility	25.00%	25.00%
Compound Dividend Yield	3.00%	3.00%
Fair Value at 31 December 2016	$3.35	$12.97

The determination of fair value does not include an adjustment for performance or service conditions.

(b) Deferred Employee Share Plan ("DESP)

This plan introduced in 2007 is settled by the transfer of equity instruments to participants upon vesting. The required ordinary shares are purchased on market around the time of the grant and held by the Deferred Employee Share Plan Trust. In the event that the Trust has sufficient ordinary shares, due to forfeits, new grants are valued at the VWAP of ordinary shares traded during the first 10-days of the Trading Window that immediately follows the announcement of the full-year results for the full year.

(c) Share Appreciation Rights ("SARs)

For overseas based employees, where settlement in equity can present challenges, cash settled SARs are offered. The fair value of these rights is determined on the same basis as the PLTIP Rights adjusted for the dividend rights which attach.

(d) Exempt Employee Share Plan ("EESP")

Australian based permanent employees with more than six-months service and a salary less than $180,000 per annum 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 2016, 344 employees accepted the offer and at 31 December 2016 a further $179,271 was remaining to be collected via payroll deductions.

(e) Expense

	2016 $'000	2015 $'000
Long-term incentive bonus expense	1,656	261

Note 8: Share Based Payments continued

(f) Awards Outstanding

	PLTIP Options	PLTIP Rights	DESP	SARs
Outstanding at the beginning of the year	-	-	310,266	41,268
Granted during the year	504,270	108,782	17,544	384
Vested during the year	-	-	(88,485)	(11,918)
Forfeited during the year	(5,399)	(1,073)	(37,293)	-
Balance at the end of the year	498,871	107,709	202,032	29,734

Note 9: Remuneration of Auditors

	2016 $	2015 $
During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.		
(a) Audit services		
PricewaterhouseCoopers – Australian firm		
Audit and review of financial reports	**400,900**	416,900
PricewaterhouseCoopers – non-Australian firm		
Audit and review of financial reports	**29,935**	-
Non-PricewaterhouseCoopers – Singaporean firm		
Audit and review of financial reports	**31,008**	31,460
Total remuneration for audit services	**461,843**	448,360
(b) Non-audit services		
PricewaterhouseCoopers – Australian firm		
Assurance services	**26,350**	23,617
Taxation services	**51,250**	80,506
Other Services	**69,500**	16,666
PricewaterhouseCoopers – non-Australian firms		
Taxation services	**63,763**	48,391
Other services	**17,144**	485
Non-PricewaterhouseCoopers – Singaporean firm		
Other services	**16,206**	13,157
Total remuneration for non-audit services	**244,213**	182,822

It is the Company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the consolidated entity 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 10: Dividends

	2016 $'000	2015 $'000
Dividends paid		
Final ordinary dividend for the year ended 31 December 2015 of 22.25 cents (2014: 20.75 cents) per fully paid share paid on 8 April 2016 (2014: 2 April 2015), fully franked based on tax paid at 30% (2014: 30%)	**24,482**	22,827
Interim ordinary dividend for the year ended 31 December 2016 of 17.00 cents (2015: 15.75 cents) per share paid on 7 October 2016 (2015: 9 October 2015), fully franked based on tax paid at 30% (2015: 30%)	**18,706**	17,330
Dividends paid to members of InvoCare Limited	**43,188**	40,157
On 16 June 2016 and 12 December 2016 (2015: 20 July 2015) dividend totalling 15.45 cents (2015: 14.75 cents) per fully paid share, fully franked based on tax paid at 30%, was paid to non-controlling interests.	**123**	118
	43,311	40,275
Dividends not recognised at year end		
In addition to the above dividends, since the year end, the directors recommended the payment of a final dividend to InvoCare Limited shareholders of 25.50 cents (2015: 22.25 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend, expected to be paid on 7 April 2017 out of 2016 profits, but not recognised as a liability at year end is:	**28,058**	24,482
Franking credit balance		
The amounts of franking credits available for subsequent financial years are:		
Franking account balance at the end of the financial year	**28,120**	28,120
Franking credits that will arise from the payment of income tax payable at the end of the financial year	**4,227**	8,563
Reduction in franking account resulting from payment of proposed final dividend of 25.50 cents (2015: 22.25 cents)	**(12,025)**	(10,492)
	20,322	26,191

Note 11: Earnings per Share

	2016 $'000	2015 $'000
Reconciliation of Earnings to Profit and Loss		
Profit from ordinary activities after income tax	**71,048**	54,969
Less profit attributable to non-controlling interests	**(99)**	(125)
Profit used to calculate basic and diluted EPS	**70,949**	54,844

	2016 Number	2015 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**109,671,454**	109,533,561
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**109,906,820**	109,533,561

	2016 cents	2015 cents
Earnings per share for profit attributable to the ordinary equity holders of the Company		
Basic earnings per share (cents per share)	**64.7**	50.1
Diluted earnings per share (cents per share)	**64.6**	50.1

Note 12: Cash and Cash Equivalents

	2016 $'000	2015 $'000
Cash on hand	**87**	83
Cash at bank	**11,441**	8,596
	11,528	8,679
Cash at bank attracts floating interest rate of 0.00% (2015: 0.75%)		

Note 13: Trade and Other Receivables

	2016 $'000	2015 $'000
Current		
Trade receivables	**43,786**	35,737
Provision for doubtful receivables	**(2,279)**	(2,265)
Prepayments	**5,758**	6,138
Other receivables	**1,291**	1,529
	48,556	41,139
Non-current		
Trade receivables	**26,772**	22,290
Provision for doubtful receivables	**(2)**	(4)
Security deposits	**1,206**	595
	27,976	22,881

(a) Impaired receivables

Movements in the provision for impairment of receivables are as follows:

	2016 $'000	2015 $'000
As at 1 January	**2,269**	2,230
Provision for impairment recognised during the year	**649**	923
Receivables written off as uncollectible	**(637)**	(884)
As at 31 December	**2,281**	2,269

Note 14: Inventories

	2016 $'000	2015 $'000
Current		
Finished goods – at cost	**24,641**	22,487
Work in progress – at cost	**1,097**	1,964
	25,738	24,451

Note 15: Prepaid Contracts

(a) Income statement impact of undelivered prepaid contracts

	2016 $'000	2015 $'000
Gain on prepaid contract funds under management	**39,426**	19,790
Change in provision for prepaid contract liabilities	**(16,498)**	(12,263)
Net gain on undelivered prepaid contracts	**22,928**	7,527

(b) Movements in prepaid contract funds under management

	2016 $'000	2015 $'000
Balance at the beginning of the year	**422,284**	400,967
Sale of new prepaid contracts	**46,669**	35,338
Initial recognition of contracts paid by instalment	**3,930**	3,211
Redemption of prepaid contract funds following service delivery	**(39,253)**	(37,022)
Increase in fair value of contract funds under management	**39,426**	19,790
Balance at the end of the year	**473,056**	422,284

(c) Movements in prepaid contract liabilities

	2016 $'000	2015 $'000
Balance at the beginning of the year	**408,448**	393,841
Sale of new prepaid contracts	**46,669**	35,338
Initial recognition of contracts paid by instalment	**3,930**	3,211
Decrease following delivery of services	**(37,517)**	(36,205)
Increase due to re-evaluation of delivery obligation	**16,498**	12,263
Balance at the end of the year	**438,028**	408,448

(d) 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.

(e) Nature of contracts under management and liabilities

Prepaid contracts are tripartite agreements, currently entered into and performed in Australia only, 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. InvoCare 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. InvoCare also records a liability at the current selling price of the service to be delivered and adjusts this liability for the change in selling prices during the period.

The assignment of the benefit of the invested funds to InvoCare, in most cases, 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 generally required by law, most of the funds are controlled by trustees who are independent 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 $6,977,000 (2015: $6,797,000). These funds and the relevant liability are recognised when the contract has been fully paid.

During the year the non-cash fair value movements (i.e. investment earnings) of $39.4 million in prepaid contract funds under management (2015: $19.8 million) was greater than the non-cash growth due to selling price increases of $16.5 million in the liability for future service delivery obligations (2015: $12.3 million).

Note 16: Interests in Other Entities: Subsidiaries

(a) Interests in subsidiaries

Set out below are the Group's principal trading subsidiaries at 31 December 2016. 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.

Name of entity	Country of incorporation	Principal activities	Ownership interest held by the Group 2016 %	2015 %
InvoCare Australia Pty Limited	Australia	Funeral services provider	**100**	100
Bledisloe Australia Pty Ltd	Australia	Funeral services provider	**100**	100
InvoCare New Zealand Limited	New Zealand	Funeral services provider	**100**	100
Singapore Casket Company (Private) Limited	Singapore	Funeral services provider	**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, InvoCare Hong Kong Limited and InvoCare USA, Inc. 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 Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to Note 32.

During 2016 Bledisloe New Zealand Limited was renamed InvoCare New Zealand Limited and InvoCare New Zealand Limited was renamed InvoCare Holdings NZ Limited.

(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% (2015: 16.86%). During the year dividends totalling $123,000 were paid to non-controlling interests (2015: $118,000).

Note 17: Interests in Other Entities: Associates

(a) Interests in associates

(i) Set out below is the associate of the Group at 31 December 2016. The entity listed below has share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also its principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held. The interest held in this entity is not material to the Group.

Name of entity	Country of incorporation	Nature of relationship	Measurement method	% of ownership interest 2016 %	2015 %	Carrying Amount 2016 $'000	2015 $'000
HeavenAddress Pte. Ltd	Singapore	Associate	Equity method	**34.59**	34.59	**-**	-

HeavenAddress Pte. Ltd offers online memorial services to allow families and communities to celebrate the life of a loved one.

(ii) Commitments and contingent liabilities in respect of associates:

The Group has no commitments or contingent liabilities in respect of its associates at 31 December 2016 (2015: Nil).

Note 17: Interests in Other Entities: Associates continued

(b) Impairment

As at 31 December 2015 the recoverable amount of the Group's investment in its associate was nil as a result of impairment write downs in 2015 and 2014. The decision to impair this investment was made after considering the business performance to date, its future cash projections and the risks associated with a start-up operation. A review of the associate's performance in 2016 was carried out and no reversal of previous impairment write down was deemed necessary.

The recoverable amount is based on value-in-use calculations whereby cash flow projections provided by the associate's management have been discounted to present value using selected discount rates. Cash projections which covered an initial three-year period have then been extrapolated using estimated growth rates of 3% for both revenues and expenses.

Sensitivities were conducted on a number of variables including revenue growth and discount rates. Given the start-up nature of the business, more weight was placed on the existing business than on future opportunities when developing growth scenarios. A pre-tax rate of 17.8% (2015: 17.8%) was used to discount the cash projections. This is higher than the 10.9% rate used for valuing existing business assets and reflects the greater risk associated with a start-up investment. From these scenarios Management has selected a mid-point which it believes is in a range of possible future outcomes. The Group will continue to monitor its investment in the associate for indicators of any future impairment reversals.

Note 18: Property, Plant and Equipment

	Cemetery land $'000	Freehold land $'000	Buildings $'000	Leasehold land and buildings $'000	Leasehold improve-ments $'000	Plant and equipment $'000	Total $'000
At 1 January 2016							
Cost	**111,588**	**85,164**	**137,741**	**4,534**	**7,510**	**128,857**	**475,394**
Accumulated depreciation/amortisation	**(7,399)**	**-**	**(53,505)**	**(3,005)**	**(3,268)**	**(81,593)**	**(148,770)**
Impairment write-downs	**(4,376)**	**-**	**-**	**-**	**-**	**-**	**(4,376)**
Net book amount	**99,813**	**85,164**	**84,236**	**1,529**	**4,242**	**47,264**	**322,248**
Year ended 31 December 2016							
Additions	**550**	**-**	**5,311**	**-**	**2,220**	**24,869**	**32,950**
Disposals	**-**	**-**	**(675)**	**-**	**(586)**	**(2,534)**	**(3,795)**
Depreciation/amortisation & impairment charge	**(540)**	**-**	**(4,436)**	**(176)**	**(660)**	**(14,323)**	**(20,135)**
Effect of movement in exchange rates	**96**	**258**	**291**	**(10)**	**33**	**72**	**740**
Closing net book amount	**99,919**	**85,422**	**84,727**	**1,343**	**5,249**	**55,348**	**332,008**
At 31 December 2016							
Cost	**112,234**	**85,422**	**142,479**	**4,534**	**8,859**	**143,712**	**497,240**
Accumulated depreciation/amortisation	**(7,939)**	**-**	**(57,752)**	**(3,191)**	**(3,610)**	**(88,364)**	**(160,856)**
Impairment write-downs	**(4,376)**	**-**	**-**	**-**	**-**	**-**	**(4,376)**
Net book amount	**99,919**	**85,422**	**84,727**	**1,343**	**5,249**	**55,348**	**332,008**
At 1 January 2015							
Cost	107,979	83,959	132,262	4,534	6,622	118,779	454,135
Accumulated depreciation/amortisation	(7,010)	-	(49,921)	(2,821)	(2,820)	(73,443)	(136,015)
Impairment write-downs	(9,776)	-	-	-	-	-	(9,776)
Net book amount	91,193	83,959	82,341	1,713	3,802	45,336	308,344
Year ended 31 December 2015							
Additions	25	746	5,018	-	1,027	15,399	22,215
Business combinations	3,584	433	2,326	-	-	336	6,679
Disposals	-	(200)	(223)	-	(19)	(385)	(827)
Depreciation/amortisation & impairment charge	5,011	-	(4,382)	(176)	(567)	(13,394)	(13,508)
Effect of movement in exchange rates	-	226	(44)	(8)	(1)	(28)	145
Transfers/reclassifications	-	-	(800)	-	-	-	(800)
Closing net book amount	99,813	85,164	84,236	1,529	4,242	47,264	322,248
At 31 December 2015							
Cost	111,588	85,164	137,741	4,534	7,510	128,857	475,394
Accumulated depreciation/amortisation	(7,399)	-	(53,505)	(3,005)	(3,268)	(81,593)	(148,770)
Impairment write-downs	(4,376)	-	-	-	-	-	(4,376)
Net book amount	99,813	85,164	84,236	1,529	4,242	47,264	322,248

Note 18: Property, Plant and Equipment continued

(a) 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:

	2016 $'000	2015 $'000
Freehold buildings	**694**	2,008
Leasehold improvements	**521**	700
Plant and equipment	**514**	1,721
Cemetery land	**543**	-
Total assets in the course of construction	**2,272**	4,429

(b) Impairment

All impaired cemetery and crematorium sites were reassessed at 31 December 2016 using the same methodology as previously applied and no change to the impairment provision was deemed necessary.

The following table summarises the impairment losses/reversals along with the recoverable amount estimates for the individual sites for 2016 and 2015:

Site Name	Impairment Loss/(Reversal)		Recoverable Amount Estimates	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Allambe Gardens Memorial Park, Queensland	**-**	(3,000)	**17,500**	17,500
Mt Thompson Memorial Gardens, Queensland	**-**	(2,400)	**15,300**	15,300
Tweed Heads Memorial Gardens, New South Wales	**-**	-	**2,100**	2,100
	-	(5,400)	**34,900**	34,900

The impairment losses recognised over the years may be reversed in future years. The Group has no impairment at other cemetery and crematorium sites, or of other property, plant and equipment assets. 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 4% in revenues and 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%. This analysis demonstrates that changing the assumptions is unlikely to result in a material change in the currently recognised impairment losses. Management considers that a +/- 10% shift is within the reasonably possible range of long-term outcomes. The pre-tax discount rate used was 10.9% (2015: 10.9%), reflecting the risk estimates for the business as a whole.

(c) Property held for sale

During 2015 a review of the Group's property requirements in New South Wales, Australia and the North Island of New Zealand identified parcels of land and buildings which were no longer strategically significant to the Group's long-term growth and being actively marketed. Accordingly they have been classified as held for sale.

Note 19: Intangible Assets

	Goodwill $'000	Brand name $'000	Total $'000
At 1 January 2016			
Cost	**146,975**	**12,909**	**159,884**
Accumulated amortisation	**-**	**(7,133)**	**(7,133)**
Net book amount	**146,975**	**5,776**	**152,751**
Year ended 31 December 2016			
Impairment write-downs	**(154)**	**-**	**(154)**
Effect of movement in exchange rates	**1,051**	**47**	**1,098**
Amortisation charge	**-**	**(1,200)**	**(1,200)**
Net book amount	**147,872**	**4,623**	**152,495**
At 31 December 2016			
Cost	**147,872**	**12,991**	**160,863**
Accumulated amortisation	**-**	**(8,368)**	**(8,368)**
Net book amount	**147,872**	**4,623**	**152,495**
At 1 January 2015			
Cost	145,390	12,922	158,312
Accumulated amortisation	-	(5,832)	(5,832)
Net book amount	145,390	7,090	152,480
Year ended 31 December 2015			
Acquisition of subsidiary / businesses	1,536	-	1,536
Effect of movement in exchange rates	49	(42)	7
Amortisation charge	-	(1,272)	(1,272)
Net book amount	146,975	5,776	152,751
At 31 December 2015			
Cost	146,975	12,909	159,884
Accumulated amortisation	-	(7,133)	(7,133)
Net book amount	146,975	5,776	152,751

(a) Impairment test for goodwill

For the Group's Australian-based operations, goodwill cannot be allocated on a non-arbitrary basis to individual Cash-generating Units ("CGU"s) due to the significant history of numerous acquisitions, especially during the years 1993 to 1999, and resulting post-acquisition business integration activities and operational changes over many years. The New Zealand, Singapore and USA operations are separate CGUs and the associated goodwill arising from that acquisition has been allocated to the single New Zealand, Singapore or USA 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 Australian, New Zealand, Singapore and USA 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 will not cause further impairment.

During 2016, a strategic decision was made to close a previously acquired small business in New Zealand as it no longer fits the Group's long term strategy. As a result, $154,000 in goodwill recognised in the prior years in relation to this acquisition was fully impaired.

(b) 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 4% in revenue and 3% in expense projections are not inconsistent with historical trends and forecasts included in reports prepared by market analysts. The pre-tax discount rate used for assessing the carrying value of goodwill in each CGU was 10.9% (2015: 10.9%), reflecting the risk estimates for the business as a whole. Sensitivity analysis indicates significant headroom exists in the value-in-use calculations for Australia, New Zealand, Singapore and USA compared to the carrying value of goodwill.

Note 20: Derivative Financial Instruments

	2016 $'000	2015 $'000
Current liabilities		
Interest rate swap contracts – cash flow hedges	**966**	1,130
	966	1,130
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	**1,774**	3,062
	1,774	3,062

Full details of the derivatives being used by the Group and the risks and ageing of the existing derivatives are set out in Note 2 – Financial risk management.

Note 21: Trade and Other Payables

	2016 $'000	2015 $'000
Current		
Trade payables	**32,683**	26,446
Sundry payables and accrued expenses	**11,796**	11,583
Deferred cash settlement for business interests acquired	**192**	1,284
	44,671	39,313
Non-current		
Deferred cash settlement for business interests acquired	**91**	174
	91	174

Full details of the risks and currency exposure of trade and other payables are set out in Note 2 – Financial Risk Management.

Note 22: Borrowings

	2016 $'000	2015 $'000
Long-term borrowings		
Borrowings are represented by:		
Principal amount of bank loans - unsecured	**235,203**	231,833
Loan establishment costs	**(748)**	(1,061)
	234,455	230,772

Full details of the risks, ageing and available facilities are set out in Note 2 – Financial Risk Management.

Note 23: Provisions for Employee Benefits

	2016 $'000	2015 $'000
Current		
Employee benefits	**14,511**	14,318
Non-current		
Liability for long service leave	**3,029**	2,306

	2016 Number	2015 Number
(a) Employee numbers		
Number of full-time equivalent employees	**1,566**	**1,557**

(b) Superannuation plan

The Company contributes to accumulation-type employee superannuation plans in accordance with statutory requirements.

Note 24: Current Liabilities expected to be settled within twelve months

The amounts included in current liabilities which are expected to be settled within twelve months are set out below.

	Total current liability		Expected to settle within twelve months	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade and other payables	**44,671**	39,313	**44,671**	39,313
Current tax liabilities	**9,935**	10,111	**9,935**	10,111
Prepaid contract liabilities	**37,595**	34,954	**37,595**	34,954
Deferred revenue	**10,243**	8,660	**10,243**	8,660
Employee benefits	**14,511**	14,318	**8,476**	8,031
	116,955	107,356	**110,920**	101,069

The amounts expected to be settled within twelve months have been calculated based on the historical settlement patterns.

Note 25: Contributed Equity

	2016 $'000	2015 $'000
Fully paid ordinary shares	**134,914**	133,694

	2016 Number	2016 $'000	2015 Number	2015 $'000
Ordinary shares				
Balance at the beginning of the financial year	**110,030,298**	**136,858**	110,030,298	136,858
Total contributed equity	**110,030,298**	**136,858**	110,030,298	136,858
Treasury shares (note 25 (b))	**(331,724)**	**(1,944)**	(444,300)	(3,164)
Total consolidated contributed equity	**109,698,574**	**134,914**	109,585,998	133,694

(a) Ordinary shares

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.

Note 25: Contributed Equity continued

(b) Treasury shares

Treasury shares are shares in InvoCare Limited that are held by the InvoCare Deferred Employee Share Plan Trust for the purpose of issuing shares under the InvoCare Deferred Employee Share Plan, as set out in Note 8.

Date	Details	Number of shares	$'000
1 January 2015	Balance	661,978	5,176
25 February 2015	Shares vested	(133,614)	(988)
30 April 2015	Shares vested	(57,334)	(695)
30 April 2015	Forfeit of shares on termination of employment	(50,513)	(627)
22 May 2015 to 3 July 2015	Forfeit of shares on termination of employment	(4,006)	(41)
6 July 2015	Transfer of shares to members of the Exempt Employee Share Plan	(26,730)	(328)
6 August 2015 to 14 December 2015	Forfeit of shares on termination of employment	(1,681)	(20)
31 December 2015	Shares provisionally forfeited but not yet de-allocation by the Trustee	(76,996)	(737)
	Unallocated shares held by the Trustee	133,196	1,424
31 December 2015	Balance	444,300	3,164
18 January 2016	Forfeit of shares on termination of employment	(13,186)	(144)
25 February 2016	Shares vested	(88,481)	(861)
26 February 2016	Forfeit of shares on termination of employment	(972)	(11)
8 April 2016	Forfeit of shares on termination of employment	(811)	(9)
11 April 2016	Forfeit of shares on termination of employment	(2,701)	(31)
01 July 2016	Forfeit of shares on termination of employment	(259)	(2)
18 July 2016	Forfeit of shares on termination of employment	(11,787)	(136)
31 July 2016	Shares vested	(364)	(5)
1 August 2016	Transfer of shares to members of the Exempt Employee Share Plan	(24,081)	(354)
26 August 2016	Forfeit of shares on termination of employment	(810)	(9)
1 December 2016	Forfeit of shares on termination of employment	(1,158)	(14)
7 December 2016	Forfeit of shares on termination of employment	(1,662)	(21)
16 December 2016	Forfeit of shares on termination of employment	(3,599)	(41)
30 December 2016	Forfeit of shares on termination of employment	(348)	(5)
31 December 2016	Movement in unallocated shares held by the Trustee	37,643	423
31 December 2016	Balance	331,724	1,944

(c) Dividend reinvestment plan

During 2006, the Company activated its Dividend Reinvestment Plan under which 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.

Note 26: Reserves and Retained Profits

	2016 $'000	2015 $'000
(a) Reserves		
Share-based payments reserve	**1,849**	2,165
Hedging reserve – cash flow hedge reserve	**(1,844)**	(2,892)
Foreign currency translation reserve	**7,339**	6,256
	7,344	5,529
Movements:		
Share-based payments reserve		
Balance at the beginning of the year	**2,165**	4,020
Deferred employee share plan expense	**550**	(171)
Vesting of deferred employee share plan shares	**(866)**	(1,684)
Balance at the end of the year	**1,849**	2,165
Hedging reserve		
Balance at the beginning of the year	**(2,892)**	(4,071)
Revaluation to fair value – gross	**1,467**	1,731
Deferred tax	**(419)**	(552)
Balance at the end of the year	**(1,844)**	(2,892)
Foreign currency translation reserve		
Balance at the beginning of the year	**6,256**	6,807
Currency translation differences	**1,083**	(551)
Balance at the end of the year	**7,339**	6,256
(b) Retained profits		
Movements in retained profits were as follows:		
Balance at the beginning of the year	**63,054**	48,367
Net profit for the year	**70,949**	54,844
Dividends paid during the year	**(43,188)**	(40,157)
Balance at the end of the year	**90,815**	63,054

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the expensed portion of shares granted to employees under the terms of the Australian Deferred Employee Share Plan.

(ii) Hedging reserve – cash flow hedge reserve

The hedging reserve is used to record gains or losses on hedging instruments that are cash flow hedges which are recognised directly in equity. Amounts are recognised in profit and loss when the associated hedged transaction affects the profit and loss.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities and from the hedging of the net investment in foreign operations are taken to the foreign currency translation reserve as set out in Notes 1(d) and 1(s). The reserve is recognised in the profit and loss when the net investment is sold.

Note 27: Non-Controlling Interests

	2016 $'000	2015 $'000
Reconciliation of non-controlling interests in controlled entities:		
Share capital	**800**	800
Retained earnings		
Balance at the beginning of the year	**262**	255
Add share of operating earnings	**99**	125
Less dividends paid	**(123)**	(118)
Closing balance of retained earnings	**238**	262
Reserves	**99**	99
Balance at the end of the year	**1,137**	1,161

Note 28: Capital and Leasing Commitments

	2016 $'000	2015 $'000
(a) Operating lease commitments		
Non-cancellable operating leases contracted for at the reporting date but not capitalised in the financial statements:		
Payable – minimum lease payments		
- not later than 12 months	**11,289**	11,828
- between 12 months and five years	**24,353**	30,530
- greater than five years	**8,447**	11,045
	44,089	53,403

During the year a lease for premises located at 181 Miller Street, North Sydney which was compulsorily acquired by Transport for NSW as part of the Sydney Metro project, was rescinded and appropriate compensation received. As a consequence lease commitments totalling $3,483,000 for periods after 31 December 2016, included in the 2015 comparative have been removed from the lease commitments disclosed.

Non-cancellable operating leases contracted for at the reporting date but not capitalised in the financial statements include the following:

	Property $'000	Equipment $'000	Total $'000
Not later than 12 months	**11,018**	**271**	**11,289**
Between 12 months and five years	**23,891**	**462**	**24,353**
Greater than five years	**8,447**	**-**	**8,447**
	43,356	**733**	**44,089**

Note 28: Capital and Leasing Commitments continued

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.

	2016 $'000	2015 $'000
(a) Capital expenditure commitments		
Capital expenditure commitments contracted or conditionally contracted at the reporting date but not recognised as liabilities payable:		
Building purchase – within one year	**6,600**	-
Building extensions and refurbishments – within one year	**705**	2,539
Plant and equipment purchases – within one year	**528**	5,345
(b) Other expenditure commitments		
Documentary letters of credit outstanding at balance date payable:		
- within one year	**113**	129

Note 29: Business Combinations

Tuckers Funeral & Bereavement Services

On 10 December 2012, a subsidiary InvoCare Australia Pty Limited completed the acquisition of Tuckers Funeral & Bereavement Services Pty Ltd and Geelong Mortuary Transfer Services Pty Ltd together with the property assets owned by a party related to the vendors ("Tuckers"). Tuckers has been operating since 1883, and is recognised to be one of the largest regional funeral directors in Australia. The company operates in the state of Victoria and its main facilities are located in Geelong West, with additional chapels and offices located in Grovedale, Lara and Barrabool Hills.

Included in the purchase consideration was $2.1 million in future payments to be paid if predetermined revenue targets are achieved in each of the next three calendar years. The predetermined revenue target was achieved in 2015 and as a result a payment, representing the final instalment of future payments, of $900,000 was made during the year.

Harewood Memorial Gardens and Crematorium / Cremation Society of Canterbury

On 22 July 2015, a subsidiary, InvoCare New Zealand (formerly Bledisloe New Zealand Limited), completed the acquisition of the cemetery and cremation assets of Harewood Memorial Gardens and Crematorium Limited and Cremation Society of Canterbury Limited ("Harewood") which have operated crematoria in the Christchurch market for over 70 years.

Retention amount of $286,000, included in the purchase consideration, was paid in January 2016.

Note 30: Contingent Liabilities and Contingent Assets

	2016 $'000	2015 $'000
The Group had contingent liabilities at 31 December 2016 in respect of bank guarantees given for leased premises of controlled entities to a maximum of:	**1,510**	2,287

For information about the deed of cross guarantee given by InvoCare Limited, InvoCare Australia Pty Limited, InvoCare (Singapore) Pty Limited, Bledone Pty Ltd and Bledisloe Australia Pty Ltd, refer to Note 32.

No liability was recognised by the consolidated entity in relation to the guarantees as the fair value of the guarantees is immaterial.

Note 31: Cash Flow Information

	2016 $'000	2015 $'000
Reconciliation of cash flow from operations with profit from ordinary activities after income tax		
Profit from ordinary activities after income tax	**70,949**	54,844
Non-cash items in profit from ordinary activities		
Depreciation, amortisation and impairment	**21,489**	22,815
Reversal of impairment loss	**-**	(5,400)
Share-based payments expense	**1,656**	779
Loan establishment costs	**384**	366
Imputed interest from deferred purchase consideration	**10**	56
Net (gain) / loss on disposal of property, plant and equipment	**676**	(312)
Unrealised (gain) on prepaid contracts	**(22,928)**	(7,527)
Other prepaid contract movements	**1,814**	837
Business acquisition costs classified in investing activities	**79**	71
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and other receivables	**(12,512)**	(8,403)
(Increase)/decrease in inventories	**(1,287)**	(2,138)
(Increase)/decrease in deferred selling expenses	**(453)**	(816)
Increase/(decrease) in trade and other payables	**5,276**	2,136
Increase/(decrease) in deferred revenue	**3,343**	6,049
Increase/(decrease) in income taxes payable	**(176)**	748
Increase/(decrease) in deferred taxes	**4,642**	4,145
Increase/(decrease) in provisions	**5,534**	(3,619)
	78,496	64,631

Note 32: 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 entities have been relieved from the requirement to prepare a Financial Report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a "Closed Group" for the purposes of the Class Order, 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 income statement, statement of comprehensive income, summary of movements in consolidated retained earnings and balance sheet for the year ended 31 December 2016 of the Closed Group.

(a) Consolidated income statement, statement of comprehensive income, and a summary of movements in consolidated retained profits of the Closed Group

	2016 $'000	2015 $'000
Consolidated income statement of the Closed Group		
Revenue from continuing operations	**369,619**	358,727
Finished goods and consumables used	**(99,743)**	(97,652)
Employee benefits expense	**(94,572)**	(90,059)
Employee related and on-cost expenses	**(24,300)**	(22,218)
Advertising and public relations expenses	**(11,745)**	(11,629)
Occupancy and facilities expenses	**(21,348)**	(21,145)
Motor vehicle expenses	**(6,297)**	(7,307)
Other expenses	**(13,418)**	(14,550)
	98,196	94,167
Depreciation, impairment and amortisation expenses	**(16,545)**	(15,448)
Reversal of impairment loss	**-**	2,823
Finance costs	**(11,106)**	(12,543)
Interest income	**932**	649
Net gain / (loss) on prepaid contracts	**22,928**	7,527
Acquisition costs	**(53)**	9
Inter-segment revenue	**2,095**	2,341
Net gain / (loss) on disposal of non-current assets	**(445)**	507
Profit before income tax	**96,002**	80,032
Income tax expense	**(25,785)**	(22,548)
Profit for the year	**70,217**	57,484
Changes in the fair value of cash flow hedges, net of tax	**1,015**	1,662
Changes in foreign currency translation reserve, net of tax	**331**	(1,255)
Other comprehensive income for the year, net of tax	**1,346**	407
Total comprehensive income for the year	**71,563**	57,891
Summary of movements in consolidated retained profits of the Closed Group		
Retained profits at the beginning of the financial year	**68,390**	51,063
Profit for the year	**70,217**	57,484
Dividends paid	**(43,188)**	(40,157)
Retained profits at the end of the financial year	**95,419**	68,390

Note 32: Deed of Cross Guarantee continued

(b) Balance sheet of the Closed Group

	2016 $'000	2015 $'000
Current assets		
Cash and cash equivalents	**1,219**	559
Trade and other receivables	**42,226**	35,309
Inventories	**22,059**	21,997
Prepaid contract funds under management	**39,260**	35,066
Property held for sale	**2,519**	3,320
Deferred selling costs	**1,537**	1,299
Total current assets	**108,820**	97,550
Non-current assets		
Trade and other receivables	**44,344**	47,126
Shares in subsidiaries	**138,789**	136,425
Property, plant and equipment	**259,577**	252,774
Prepaid contract funds under management	**433,796**	387,218
Intangible assets	**11,238**	11,418
Deferred selling costs	**9,068**	8,857
Total non-current assets	**896,812**	843,818
Total assets	**1,005,632**	941,368
Current liabilities		
Trade and other payables	**37,177**	32,594
Derivative financial instruments	**966**	1,130
Current tax liabilities	**8,409**	7,304
Prepaid contract liabilities	**37,379**	34,700
Deferred revenue	**10,243**	8,660
Provisions for employee benefits	**13,109**	13,061
Total current liabilities	**107,283**	97,449
Non-current liabilities		
Long-term borrowings	**181,064**	189,076
Derivative financial instruments	**685**	1,936
Deferred tax liabilities	**36,242**	31,313
Prepaid contract liabilities	**400,433**	373,494
Deferred revenue	**49,317**	47,559
Provisions for employee benefits	**2,861**	2,074
Total non-current liabilities	**670,602**	645,452
Total liabilities	**777,885**	742,901
Net assets	**227,747**	198,467
Equity		
Contributed equity	**134,914**	133,694
Reserves	**(2,586)**	(3,617)
Retained profits/(Accumulated losses)	**95,419**	68,390
Total equity	**227,747**	198,467

Note 33: Events after the Balance Sheet Date

Subsequent to the balance date a strategic decision was made to execute an orderly closure of the Group's USA funeral operations after a detailed review of its performance to date. Management expects to incur approximately $700,000 in costs associated with the closure. Other than this no significant subsequent events, not otherwise disclosed, have occurred since 31 December 2016.

Note 34: Related Party Transactions

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries material to the Group are set out in Note 16.

(c) Directors and key management personnel

Disclosures relating to directors and key management personnel are set out in Note 7.

(d) Transactions with related parties

	2016 $	2015 $
Transactions with other related parties		
Contributions to superannuation funds on behalf of employees	**8,823,797**	8,395,542

(e) Guarantees and other matters

Under the terms of common terms deed executed on 20 December 2013 and amended on 22 December 2015, InvoCare Limited and its material wholly-owned entities (the "Guarantors") have individually guaranteed to the financiers the due and punctual payment in full of any liabilities or obligations under the debt facilities provided under the terms of individual Facility Agreements. 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.

Note 35: Parent Entity Financial Information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts.

	2016 $'000	2015 $'000
Balance sheet		
Current assets	**131**	188
Total assets	**404,463**	381,571
Current liabilities	**9,898**	8,782
Total liabilities	**165,373**	173,044
Shareholders' equity		
Contributed equity	**134,914**	133,694
Reserves		
Share-based payments	**1,849**	2,165
Hedging reserve – cash flow hedge reserve	**(1,156)**	(2,171)
Foreign currency translation reserve	**1,080**	1,080
Retained earnings	**102,403**	73,759
Total shareholders' equity	**239,090**	208,527
Profit for the year after tax	**71,831**	53,174
Total comprehensive income for the year	**73,604**	53,224

Note 35: Parent Entity Financial Information continued

(b) Contingent liabilities of the parent entity

	2016 $'000	2015 $'000
The parent entity had contingent liabilities at 31 December 2016 in respect of bank guarantees given for leased premises of controlled entities to a maximum of:	**1,510**	2,287

No liability was recognised by the parent entity or the consolidated entity in relation to the guarantees as the fair value of the guarantees is immaterial.

(c) Contractual commitments for the acquisition of property, plant or equipment

The parent entity has no contractual commitments for the acquisition of property, plant or equipment at 31 December 2016 (31 December 2015: Nil).

(d) Tax consolidation legislation

InvoCare Limited and its wholly-owned Australian controlled entities 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 entities in the case of a default by the head entity InvoCare Limited.

This agreement was updated on 5 June 2007 and provides that the wholly-owned entities 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.

Note 36: Economic Dependence

The parent entity depends on dividend and interest income from, and management fees charged to, its controlled entities 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 $62,618,000 as outlined in Note 2(c), or by on-demand repayment of intercompany advances.

Note 37: Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(p). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 19 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Estimated impairment of other non-financial assets and cash-generating units

The Group annually considers if events or changes in circumstances indicate that the carrying amount of other assets or cash-generating units may not be recoverable. Similarly, at each reporting date, assets or 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 Notes 17 and 18 for details of these assumptions.

(iii) 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 $46.5 million at 31 December 2016 (2015: $44.0 million).

The 15-year period is based on the actuarially assessed 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 is 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 to date 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 $3.3 million (decrease by $1.6 million).

Note 38: Company Details

InvoCare Limited is a company limited by shares, incorporated and domiciled in Australia.

The registered office and principal place of business of the Company is:

Level 2, 40 Miller Street
North Sydney NSW 2060

Note 39: Authorisation of the Financial Report

This financial report was authorised for issue by the directors on 23 February 2017. The Company has the power to amend and reissue this report.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 42 to 90 are in accordance with the *Corporations Act 2001,* including:
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2016 and of their performance for the financial year ended on that date; and
(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; and
(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 32 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 32.

Note 1(a) 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.

Richard Fisher Director	Martin Earp Director

Sydney
23 February 2017

Independent auditor's report

To the shareholders 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 2016 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's financial report comprises:

the consolidated balance sheet as at 31 December 2016

the consolidated income statement for the year then ended

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* (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.

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

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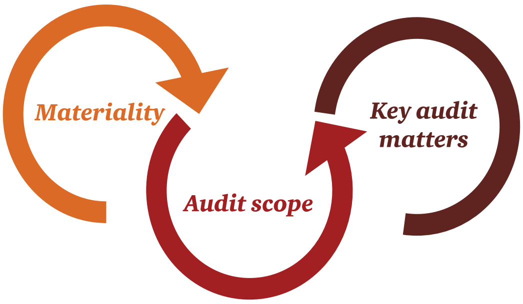
if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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

- For the purpose of our audit we used overall Group materiality of $5.0 million, which represents 5% of the Group's profit before tax.
- 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 metric against which the performance of the Group is most commonly measured by users.
- There is no common materiality threshold within the funeral services industry so we selected 5% which is within the range of acceptable quantitative profit related materiality thresholds used for publicly listed entities.

Audit scope

- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group has operations within Australia, New Zealand, Singapore, Hong Kong and the USA, with the accounting functions led from the head office in Sydney, Australia.
- We conducted audits of the financial information of the Australian and New Zealand operations given their financial significance to the Group. As shown in note 3 of the Financial Report, the Australian and New Zealand operations account for 96% of revenue and 95% of Operating EBITDA of the Group.
- The scale of operations in other territories is, in our view, insignificant to the overall results of the Group, and as such, we performed specific risk-focused audit procedures over those operations.

Key audit matters

- Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:
  - Cemetery land impairment and reversal assessment
  - Accounting for prepaid funeral contracts
  - Revenue recognition

They are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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
Cemetery land impairment and reversal assessment *Refer to Note 1(j), Note 18(b) and Note 37(ii).* We focused on this area due to the size of the Cemetery land balance (historical cost of $112.2 million as at 31 December 2016) and because the directors' assessment of the 'value in use' of the Group's Cash Generating Units (CGU's – typically defined as physical Cemetery/Crematoria locations) involves significant judgements about the future results of the business and the discount rates applied to future cash flow forecasts. In particular, we focused our audit effort on the carrying value of previously impaired sites at Allambe Gardens Memorial Park, Mount Thompson Memorial Gardens and Tweed Heads Memorial Gardens (each of which was previously impaired but no change in carrying value in the current year). The Allambe and Mount Thompson sites in South Eastern Queensland recognised impairment losses in 2004 and 2006 as a result of increased competition in the region, but each have shown steady improvement in business performance and outlook since 2013 and have recognised reversals of impairment in 2013, 2014 and 2015. Tweed Heads was impaired by $1.2million in 2013 and its carrying value is being closely monitored for further indicators of impairment or reversal of impairment. The remaining Cemetery land values have been assessed for internal and external indicators of impairment, and based on this assessment no indicators of impairment were identified by the Group.	To evaluate the composition of the Group's future cash flow forecasts and the process by which they were drawn up, we: • Developed an independent range of possible alternative inputs for revenue growth rate, expected death rate and weighted average cost of capital that could have been used. We found them to be consistent with the rates and assumptions used by the Group. • Compared the prior year cash flow forecast to current year actual results to consider whether any forecasts included assumptions that, with hindsight, had been inaccurate. We found that the assumptions and expectations within the forecast were materially consistent with the actual results. • Agreed some of the forecast inputs, such as revenue growth rate, expected death rate and weighted average cost of capital used in the valuation model to Board approved budgets. • Considered whether all relevant locations for impairment testing had been identified, by considering both the Group's own internal assessment and our own independent assessment of potential indicators for impairment. No new or different locations were identified for additional focus. For Allambe, Mount Thompson and Tweed Heads, we also: • Compared long term growth rates used by the Group to economic and industry forecasts and found that they were consistent. • Assessed the discount rate used by the Group by forming an independent expectation of what the weighted average cost of capital would be with reference to comparable organisations and independent broker reports. We challenged the Group on the adequacy of their sensitivity calculations over all their CGUs by varying critical inputs into the valuation model by plus or minus 10% and assessing how the calculations would change. We determined that the calculations were most sensitive to assumptions for revenue growth rates and discount rates and as such, focused our testing on these assumptions. We found that these assumptions were consistently applied and in line with our expectations which were based on historical experience and industry performance.
Accounting for prepaid funeral contracts *Refer to note 1(n) and note 15.* 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	For the asset value invested, we: • Agreed the balances recorded to statements and confirmation balances received from independent custodians indicating that assets were recorded accurately and in the correct period. For the liability recognised, we: • Considered whether the Group's methodology used to measure prepaid contract liabilities had been consistently applied • Tested the mathematical accuracy of the calculations used in

Key audit matter	How our audit addressed the Key audit matter

under management) and a liability to deliver the services.
 	
As at 31 December 2016, InvoCare had recorded \$473.1 million of funds under management and \$438.0 million of contract liabilities.
 	
We focused on prepaid funeral contracts due to the:
• Size of the asset and liability balances
• Significant time difference that may arise between receipt of cash from customers and the subsequent recognition of revenue on the delivery of services (redemption date)
• Potential for deliberate manipulation or error in the timing of recording revenue arising from the:
  o high volume of transactions, contracts (over 80,000 contracts) and different asset management trusts (29 trusts)
  o manual translation, into the accounting records, of the assets balances held in the trusts
	the application of price increases on service delivery obligations
	• Selected a sample of new contracts issued and contract redemptions and compared the date and value to that recorded by the Group. We found the sample tested to be accurate and recorded or redeemed in the correct period.
	
	For the revenue recognised, we:
	• Compared the redemption dates and values for a sample of prepaid funeral contracts against the dates and values at which the revenue had been recorded. We found that the revenue had been recorded accurately and in the correct period for the sample tested.

Revenue recognition (other than prepaid funeral contracts – refer key audit matter 2 above) *Refer to note 1(e) and note 4* We focused on the recognition of revenue as revenue is comprised of a number of different streams, some of which can be complex (specifically, large memorials e.g. Crypts or multiple plot sales, timing of deferred plaque and miscellaneous merchandise revenue and payments by instalment). Complexity can arise from a significant difference between the timing of receipt of cash from customers and the subsequent recognition of revenue from funeral service and memorial delivery. Due to the manual processes and calculations for the different elements of a funeral service and memorial, the high number of different revenue sources and the recognition of these in the accounting records, additional audit effort has been applied.	We assessed the design of the manual and IT controls over revenue systems to consider whether they had been implemented effectively. This included testing key Inventory and Accounts Receivable reconciliations at 31 December 2016 by agreeing material reconciling items to supporting documents. We found the controls were suitable for the purpose of our audit. For a sample of revenue transactions, we compared the delivery dates against the date on which the revenue had been recorded. We found that revenue had been recorded accurately in the correct period and in accordance with the Group's accounting policy for the sample tested.

Other information

The directors are responsible for the other information. The other information included in the Group's annual report for the year ended 31 December 2016 comprises the Directors Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. The other information also includes the Performance Highlights, Chairman's Message, Chief Executive Officer's Review, Shareholder Information and InvoCare Locations, which are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

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 has no realistic alternative but to do so.

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_files/ar2.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 27 to 38 of the directors' report for the year ended 31 December 2016.

In our opinion, the remuneration report of InvoCare Limited, for the year ended 31 December 2016 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

Brett Entwistle
Partner

23 February 2017
Sydney