InvoCare Limited and Controlled Entities

Annual Financial Report

For the financial year ended 31 December 2014

InvoCare Limited ABN 42 096 437 393

Annual Financial Report

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 4, 153 Walker 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 16 February 2015. 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

InvoCare Limited ABN 42 096 437 393

Directors' report

The directors submit their report on the consolidated entity consisting of InvoCare Limited (the "Company") and the entities it controlled for the year ended 31 December 2014. 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)
Andrew Smith (Chief Executive Officer)
Christine Clifton
Roger Penman
Aliza Knox
Richard Davis

Gary Stead was appointed as an independent Non-executive Director on 1 September 2014 and is a Director at the date of this report.

Following a sudden and serious health issue suffered by Roger Penman on 1 January 2015, he has been granted leave of absence until 30 June 2015 or such earlier date as the Board is advised that he is fit to return to normal duties.

On 17 December 2014, it was announced that Martin Earp will replace Andrew Smith as Managing Director and Chief Executive Officer with effect from 1 May 2015.

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 most recently 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 $46,192,000 (2013: $42,498,000) as reconciled on page 2. The consolidated after tax profit of the Group attributable to shareholders was $54,515,000 (2013: $48,869,000). 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 20.75 cents per share payable on 2 April 2015. Total full year dividends are 36.5 cents, being 2 cents or 5.8% higher than 2013. The full year dividend payout ratio is 87% (2013: 89%) of operating earnings after tax.

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

	2014 $'000	2013 $'000
Interim ordinary dividend of 15.75 cents (2013: 15 cents) per fully paid share paid on 3 October 2014	**17,329**	16,505
Final ordinary dividend of 20.75 cents (2013: 19.5 cents) per fully paid share has been recommended by directors on 17 February 2015 to be paid on 2 April 2015	**22,831**	21,456
Total ordinary dividends of 36.5 cents (2013: 34.5 cents)	**40,160**	37,961

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

The Dividend Reinvestment Plan ("DRP") was available for the 2014 interim dividend and $15,881,000 (2013: $13,305,000) was paid in cash and $1,448,000 (2013: $3,200,000) through the issue of 131,414 (2013: 288,312) shares purchased on market at $11.02 (2013: $11.09) per share via the DRP. The shortfall in the DRP take-up was not underwritten in 2014 and shares were not issued at a discount. The DRP will apply to the final 2014 dividend which is not being underwritten and no discount to the market price will apply.

Operating and Financial Review

Result highlights:	2014 $'m	2013 $'m	Change $'000's	%
Total sales to external customers	**413.0**	385.4	27.6	7.2%
Other revenue	7.2	6.8	0.4	5.9%
Operating expenses (i)	(319.1)	(297.1)	(22.0)	7.4%
Operating EBITDA (i)	**101.1**	95.1	6.0	6.3%
Operating margin	*24.5%*	*24.7%*		*(0.2%)*
Depreciation and amortisation	(19.2)	(17.8)	(1.4)	7.9%
Finance costs	(15.5)	(16.8)	1.3	(7.7%)
Interest income	0.7	0.7	-	-
Business acquisitions costs	(1.2)	(0.5)	(0.7)	140.0%
Share of loss of associates	(0.5)	(0.3)	(0.2)	66.7%
Operating earnings before tax (i)	**65.4**	60.3	5.1	8.5%
Income tax on operating earnings (i)	(19.2)	(17.8)	(1.4)	7.9%
Effective tax rate	*29.4%*	*29.5%*		*(0.2%)*
Operating earnings after tax (i)	**46.2**	42.5	3.7	8.7%
Operating earnings per share (i)	*42.2 cents*	*38.9 cents*	*3.3 cents*	*8.5%*
Net gain on undelivered prepaid contracts after tax (i)	7.6	1.1	6.5	
Asset sales gain or (loss) after tax (i)	0.3	3.2	(2.9)	
Impairment gain after tax (i)	0.4	2.2	(1.8)	
Non-controlling interest	(0.1)	(0.1)	-	
Net profit after tax attributable to ordinary equity holders of InvoCare	**54.5**	48.9	5.6	11.5%
Basic earnings per share	49.8 cents	44.7 cents	5.1 cents	11.4%
Interim ordinary dividend per share	15.75 cents	15.00 cents	0.75 cents	5.0%
Final ordinary dividend per share	20.75 cents	19.50 cents	1.25 cents	6.4%
Total ordinary dividend per share	36.50 cents	34.50 cents	2.00 cents	5.8%

(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 below 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
- Operating leverage improvement, through delivery of revenue growth pillars and cost control so that annual EBITDA growth is greater than annual sales growth

Not all the pillars contributed positively to 2014 results as depicted in the following table. More detail is provided throughout this report.

Favourable Demographics	✓
Pricing / average contract values	✓
Market share improvements	⇔
Prepaid contracts	✓
New locations	✓
Business acquisitions	✓
Operating leverage	×

Results Overview

2014 was a solid year for InvoCare with operating earnings after tax up by 8.7% or $3.7 million to $46.2 million (2013: $42.5 million).

Reported profit after tax also had a large improvement, up 11.6% or $5.6 million to $54.5 million (2013: $48.9 million).

The results were underpinned by an increase in the number of deaths which appears to have recovered from the declines experienced in 2013. Overall death numbers in InvoCare's markets have been estimated to have increased by 3.2% over the year. Most of this improvement came in the second half with comparable funeral case volumes growing 6.1% compared to the near flat growth experienced in the first half.

InvoCare believes from its market intelligence that the declines in comparable business funeral market share experienced in 2013 have been arrested with market share at the end of 2014 similar to that at the end of 2013. Although not achieving comparable funeral business market share growth in the year, share growth was achieved in cemeteries and crematoria operations.

Sales revenues were up 7.2% or $27.7 million to $413.0 million (2013: $385.3 million) supported by improved volumes and average funeral contract values, which were up 4.2% on the prior corresponding period ("PCP"). The higher average contract values reflect the impact of price increases applied in December 2013 and favourable foreign currency movements due to the weakening Australian dollar.

The sales result also included the full year impact of New Zealand acquisitions completed during 2013 and a small contribution from an acquisition in Australia completed in December 2014. Together these new businesses contributed $5.4 million to sales, or $3.4 million of the sales increase, as well as a small growth in the Group's overall funeral market share.

Group EBITDA was up $6.0 million or 6.3% to $101.1 million (2013: $95.1 million).

As a percentage of sales, EBITDA margins declined from 24.7% in 2013 to 24.5% in 2014. Most of this decline occurred in the second half where margins fell from 26.7% in 2013 to 26.0%. By comparison, first half margins improved 0.3% from 22.5% in 2013 to 22.8%. The 2013 second half margins were positively impacted by an interim price increase not repeated in 2014. In addition the unsustainable cost constraints put in place in the second half of 2013 to combat the low volume environment were eased in 2014 following a recovery in case volumes.

Statutory reported profit benefited from a $6.5 million after tax improvement in the net gains on undelivered prepaid contracts to $7.6 million after tax. This was partially offset by declines in after tax asset sale gains, to $0.4 million (2013: $3.2 million), and net impairment reversals of $0.4 million (2013: $2.2 million).

Cash flows remained strong for the year. Ungeared, tax free operating cash flow was 106% of EBITDA (2013: 110%), underpinning the ability to pay a fully franked final dividend of 20.75 cents per share, which is 1.25 cents up on last year. This is in addition to the 15.75 cent interim dividend paid in October, taking total dividends declared for the year to 36.5 cents (2013: 34.5 cents).

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

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

	1H14 $'m	1H13 $'m	Var %	2H14 $'m	2H13 $'m	Var %	FY14 $'m	FY13 $'m	Var %
Sales Revenue									
Australia	**169.4**	161.8	4.7%	**186.7**	176.4	5.8%	**356.1**	338.2	5.3%
New Zealand	**17.5**	14.8	18.4%	**20.1**	17.3	16.0%	**37.6**	32.1	17.1%
Singapore	**6.7**	6.5	2.4%	**7.1**	6.4	10.6%	**13.8**	13.0	6.5%
Comparable business	**193.6**	183.1	5.7%	**214.0**	200.2	6.9%	**407.6**	383.3	6.3%
Acquisitions	**2.4**	0.5		**3.0**	1.5		**5.4**	2.0	
Total	**196.1**	183.6	6.8%	**217.0**	201.7	7.6%	**413.0**	385.3	7.2%
EBITDA									
Australia	**37.8**	35.9	5.3%	**47.9**	46.4	3.1%	**85.7**	82.3	4.1%
New Zealand	**3.4**	2.2	53.4%	**4.3**	4.0	7.4%	**7.7**	6.2	23.9%
Singapore	**3.2**	3.1	2.6%	**3.5**	3.1	12.7%	**6.7**	6.2	7.6%
Comparable business	**44.4**	41.2	7.7%	**55.7**	53.5	4.0%	**100.0**	94.7	5.6%
Acquisitions	**0.4**	0.1		**0.7**	0.3		**1.1**	0.3	
Total	**44.7**	41.3	8.3%	**56.3**	53.8	4.8%	**101.1**	95.1	6.3%
Margin on sales									
Australia	**22.3%**	22.2%	0.1%	**25.6%**	26.3%	(0.7%)	**24.1%**	24.3%	(0.2%)
New Zealand	**19.5%**	15.0%	4.5%	**21.2%**	22.9%	(1.7%)	**20.4%**	19.3%	1.1%
Singapore	**47.5%**	47.4%	0.1%	**49.5%**	48.6%	0.9%	**48.5%**	48.0%	0.5%
Comparable business	**22.9%**	22.5%	0.4%	**26.0%**	26.7%	(0.7%)	**24.5%**	24.7%	(0.2%)
Acquisitions	**14.9%**	16.9%		**23.0%**	17.2%		**19.3%**	17.1%	
Total	**22.8%**	22.5%	0.3%	**26.0%**	26.7%	(0.7%)	**24.5%**	24.7%	(0.2%)

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

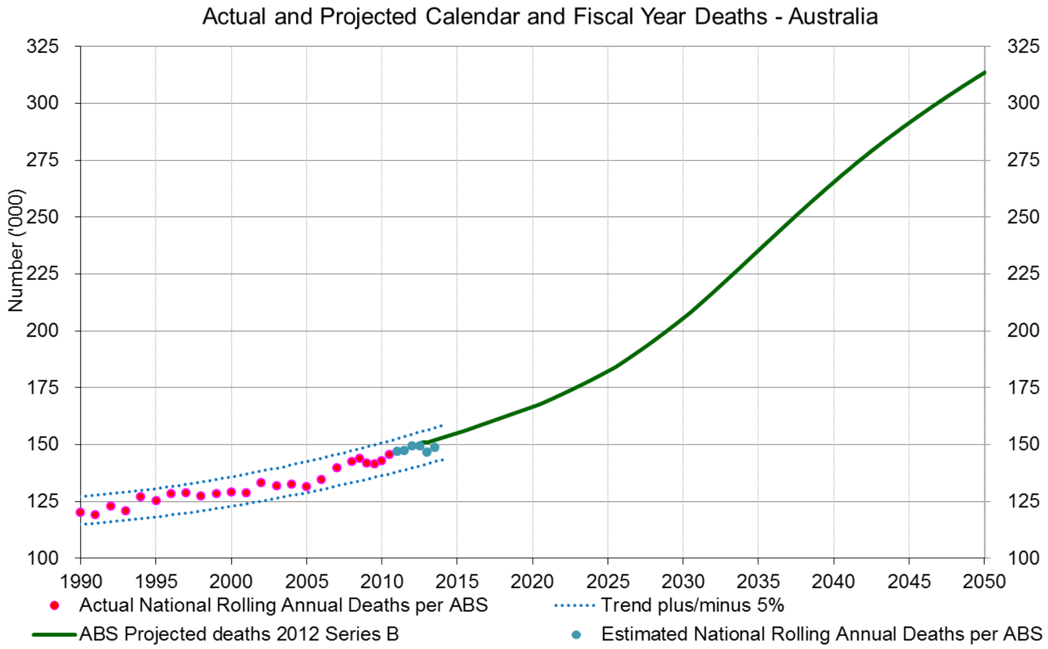
	1H14 $'m	1H13 $'m	Var %	2H14 $'m	2H13 $'m	Var %	FY14 $'m	FY13 $'m	Var %
Total - all lines of business									
Sales Revenue	**196.1**	**183.6**	**6.8%**	**217.0**	**201.7**	**7.6%**	**413.0**	**385.3**	**7.2%**
Other revenue	3.5	3.4	2.9%	3.7	3.4	8.8%	7.2	6.9	4.3%
Expenses:									
Cost of goods sold	(57.2)	(53.9)	(6.1%)	(64.4)	(59.3)	(8.6%)	(121.6)	(113.2)	(7.4%)
Personnel	(63.6)	(60.0)	(6.0%)	(65.7)	(59.5)	(10.4%)	(129.4)	(119.4)	(8.4%)
Advertising & promotions	(7.6)	(6.8)	(11.8%)	(7.3)	(6.4)	(14.1%)	(14.9)	(13.2)	(12.9%)
Occupancy & facility expenses	(13.1)	(12.7)	(3.1%)	(14.0)	(13.3)	(5.3%)	(27.1)	(26.0)	(4.2%)
Motor vehicle expenses	(4.1)	(4.0)	(2.5%)	(4.7)	(4.3)	(9.3%)	(8.8)	(8.3)	(6.0%)
Other expenses	(9.1)	(8.4)	(8.3%)	(8.1)	(8.5)	4.7%	(17.2)	(16.8)	(2.4%)
Operating expenses	(154.8)	(145.8)	(6.2%)	(164.3)	(151.3)	(8.6%)	(319.1)	(297.1)	(7.4%)
Operating EBITDA	**44.7**	**41.3**	**8.2%**	**56.3**	**53.8**	**4.6%**	**101.1**	**95.1**	**6.3%**
Operating margin %	*22.8%*	*22.5%*	*0.3%*	*26.0%*	*26.7%*	*-0.7%*	*24.5%*	*24.7%*	*-0.2%*

Note: that the data in the tables above has been calculated in thousands and presented in millions and as a consequence some additions cannot be computed from the above tables as presented.

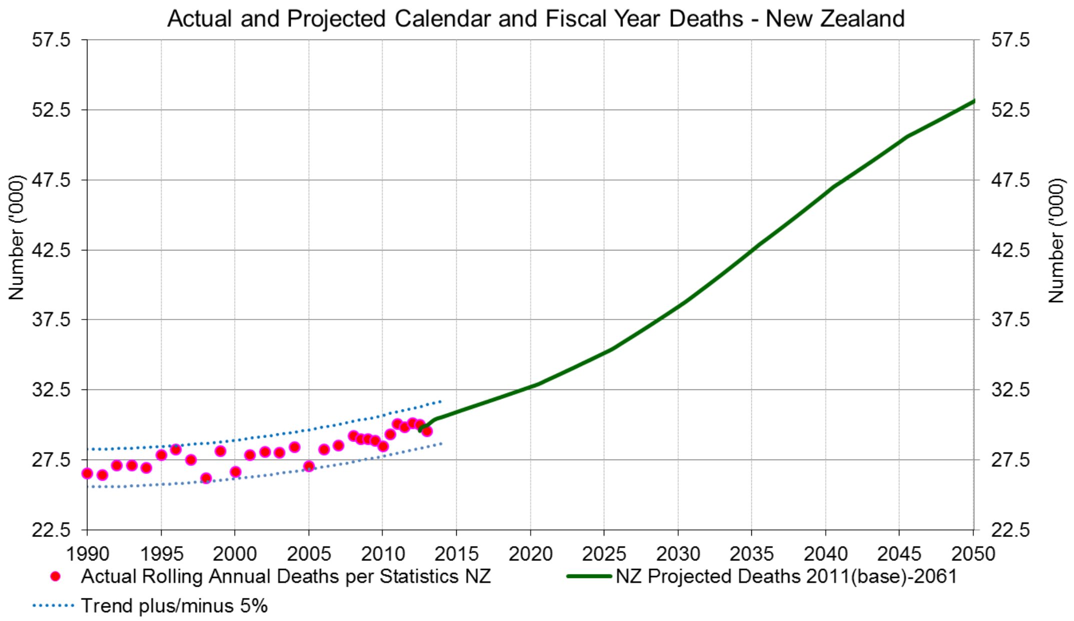
Number of deaths

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 and have a similar profile to that expected in Australia in future years.



The table below[1] illustrates the trends in InvoCare's funeral case volumes over the last twenty four months.

	2014 Vs 2013			2013 Vs 2012		
	Half 1	Half 2	Full Year	Half 1	Half 2	Full Year
Australia	(0.1%)	5.7%	2.9%	(0.3%)	(5.1%)	(2.8%)
New Zealand	1.8%	10.6%	6.4%	(2.7%)	(7.4%)	(5.2%)
Singapore	1.3%	1.3%	1.3%	(2.9%)	2.6%	(0.3%)
Total comparable business	0.1%	6.1%	3.2%	(0.7%)	(5.1%)	(3.0%)
Total Group (incl. acqns)	1.4%	6.8%	4.2%	2.0%	(2.0%)	(0.1%)

During 2014, funeral case volumes in comparable businesses increased by 3.2% against the prior year. Most of this improvement occurred in the second half where year on year volumes improved 6.1% compared to 0.1% in the first half. The strong growth in the second half more than recovered the 5.1% decline experienced in the PCP.

InvoCare's market intelligence indicates that the comparable business volume growth in 2014 was driven by an increase in the number of deaths which showed an estimated 3.2% increase across all InvoCare's geographical markets, reversing the cyclical downturns experienced in 2013.

InvoCare estimates it has maintained its funeral market share since December 2013 in its comparable business. The New Zealand acquisitions have contributed to a small growth in the Group's overall funeral market share.

The Australian cemeteries and crematoria businesses operating in New South Wales and Queensland experienced a 3.8% increase in cremation and burial service volumes. The number of deaths in those markets was less than this increase. Accordingly, cemeteries and crematoria market share has grown, partly attributable to service initiatives which attracted more case volumes.

Commentary on the period since 31 December 2014 is set out in the Outlook section on page 15.

[1] Comparable businesses in the table comprise a different mix in 2014 from 2013. The 2013 percentages are as presented in the FY 2013 results presentation.

Sales

Key components of the comparable sales movements are summarised below:

- Australian funeral sales increased 5.3% or $14.4 million to $285.9 million (2013: $271.5 million).
  - Average revenue per funeral contract, excluding disbursements and delivered prepaid impacts, increased 3.4% (2013: 5.1%) and contributed an estimated $7.4 million to sales growth. This increase included both price and mix impacts. The price component included normal price increases applied in December 2013. The increase in 2014 was less than 2013 due to additional price increases taken in the second half of 2013 which were not repeated in 2014.
  - The number of funeral services performed was up on the previous year by 2.9%. Most of this growth came in the second half with the number of services up 5.7% compared to a 0.1% decline in the first half.
  - InvoCare's market intelligence indicates that market share initiatives introduced from mid-2013 have been successful with the Australian funeral market share being maintained at the end of 2014 against the PCP. These initiatives included:
    - Reinforcing customer service excellence
    - Enhancing employee engagement
    - Additional targeted investment in advertising and promotion
    - Continued investment in digital facilities and omni-channel
    - Community involvement
    - The roll out of mobile arrangers in six localities in Australia
    - Co-branding some key locations
  - The number of new prepaid funeral contracts sold for comparable Australian business declined by 1.1% on the previous year and exceeded the number of prepaid services performed by 8.3% (2013: 15.3%). Prepaid funerals performed in the year remained consistent at 14.6% (2013: 14.5%) of comparable at need funerals.
- Australian cemeteries and crematoria sales were up 6.1% or $4.7 million to $81.3 million (2013: $76.6 million). This included deferred revenue adjustments of $4.0 million which were $0.6m lower than the prior year (2013: $4.6 million). List prices were raised by an average of 4.9% during the first quarter, which along with case volume increases of 3.8%, contributed to the sales result.
- Comparable New Zealand sales (in NZD) were up 8.3% or $3.1 million to $40.9 million (2013: $37.8 million). This comprised increase case volumes which were up 6.4% on PCP and higher funeral case averages which increased 1.1% following planned price increases. In AUD New Zealand sales were up 17.1% to $37.6 million (2013: $32.1 million) which included favourable FX movements of $2.8 million
- Including acquisitions, New Zealand sales (in NZD) were up 16.5% or $6.6 million to $46.8 million.
- Singapore funeral sales (in SGD) increased by 0.5% to $15.8 million (2013: $15.7 million). Case volumes improved 1.3% on PCP but were offset by average contract values which were down 0.6% due to a shift in product mix towards lower value packages and increased competition. In AUD Singapore sales increased 6.5% to $13.8 million (2013: $13.0 million) which included favourable FX movements of $0.8 million.
- Intra-group elimination of cemeteries and crematoria sales to InvoCare owned funeral homes amounted to $11.1 million (2013: $10.0 million).

Other revenue

Other revenue increased by 4.9% to $7.2 million (2013: $6.9 million). Other revenue mainly comprises administration fees upon initial sale of prepaid funeral contracts and trailing commissions on prepaid funds.

Operating expenses and EBITDA

Operating EBITDA[2] increased by 6.3% or $6.0 million to $101.1 million (2013: $95.1 million). The margin on sales dropped 0.2% to 24.5%. On a comparable basis, Operating EBITDA increased by $5.3 million or 5.6% to $100.0 million (2013: $94.7 million) with margins also dropping 0.2% to 24.5%.

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

Favourable FX movements benefited Operating EBITDA by $1.0 million, as the NZD and SGD strengthened against the AUD, particularly in the first half.

Operating expenses (excluding depreciation, amortisation, acquisition related and finance costs) increased $22.0 million or 7.4% to $319.1 million. On a comparable basis excluding the impact of acquisitions, the increase was 6.5% or $19.3 million.

Backing out foreign exchange movement impacts ($3.0 million) to reflect constant exchange rates, total operating expenses increased by 6.3%.

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

	1H14 $'m	1H13 $'m	Var %	2H14 $'m	2H13 $'m	Var %	FY14 $'m	FY13 $'m	Var %
Total - all lines of business									
Sales Revenue	**193.6**	**183.1**	**5.7%**	**214.0**	**200.2**	**6.9%**	**407.6**	**383.3**	**6.3%**
Other revenue	3.5	3.4	2.9%	3.7	3.4	8.8%	7.2	6.8	5.9%
Expenses:									
Cost of goods sold	(56.2)	(53.7)	(4.7%)	(63.4)	(58.7)	(8.0%)	(119.6)	(112.5)	(6.3%)
Personnel	(63.0)	(59.8)	(5.4%)	(65.0)	(59.1)	(10.0%)	(128.0)	(118.9)	(7.7%)
Advertising & promotions	(7.5)	(6.8)	(10.3%)	(7.2)	(6.4)	(12.5%)	(14.7)	(13.2)	(11.4%)
Occupancy & facility expenses	(13.0)	(12.6)	(3.2%)	(13.8)	(13.2)	(4.5%)	(26.8)	(25.9)	(3.5%)
Motor vehicle expenses	(4.1)	(4.0)	(2.5%)	(4.7)	(4.3)	(9.3%)	(8.7)	(8.3)	(4.8%)
Other expenses	(9.0)	(8.4)	(7.1%)	(7.9)	(8.4)	6.0%	(16.9)	(16.7)	(1.2%)
Operating expenses	(152.7)	(145.3)	(5.1%)	(162.0)	(150.1)	(7.9%)	(314.7)	(295.4)	(6.5%)
Operating EBITDA	**44.4**	**41.2**	**7.8%**	**55.7**	**53.5**	**4.1%**	**100.0**	**94.7**	**5.6%**
Operating margin %	*22.9%*	*22.5%*	*0.4%*	*26.0%*	*26.7%*	*-0.7%*	*24.5%*	*24.7%*	*-0.2%*

Note: that the data in the tables above has been calculated in thousands and presented in millions and as a consequence some additions cannot be computed from the tables as presented.

Cost of goods sold increased as a % of sales from 29.4% in 2013 to 29.3% in 2014 due to a shift in sales mix of cemeteries and crematoria products.

The ratio of personnel costs to sales revenue was 31.4% which was up from 31.0% in 2013. Base labour rates have generally been contained to 3.5% increases, consistent with the awards and enterprise agreements in place for the majority of the workforce. Personnel costs were also impacted by one off costs of approximately $0.9 million accrued in 2014 associated with the end of Mr Andrew Smith's contract, as well as the recruitment costs of the new CEO, Mr Martin Earp and higher short term incentives following improved 2014 performance. These higher costs were in part mitigated by the reversal of long term incentive costs for the forfeiture of 2010 grants which will not vest.

The ratio of personnel cost to sales in the second half of 2014 was 30.4% which was up on the 29.5% recorded in PCP. The lower ratio achieved in PCP reflects the initiatives taken at the time to realign the workforce with the lower volume environment. This included critically assessing fixed and casual staffing levels and reviewing vacancies created by departing employees. With improved volumes in 2014 personnel costs were allowed to settle at more sustainable levels and in line with historical trends. By comparison the first half personnel ratio was flat at 32.5% of sales (2013: 32.6%).

Advertising and marketing expenditure increased by $1.5 million or 11.6% to $14.7 million (2013: $13.2 million). This included additional expenditure on main media and digital channels in both Australia and New Zealand to address the 2013 market share declines. The increase also brought spending back in line with more sustainable levels which had been curtailed in 2013 due to case volume pressures.

In terms of digital business initiatives, work is continuing on various fronts. These include:

- continued roll out of electronic processing capabilities across states, including at need and preneed funeral arrangements using tablet technologies
- rollout of enhanced websites and social media, including mobile devices
- rollout of enhanced digital audio visual solutions across InvoCare's chapels,
- continued focus on obtaining greater leverage from the HeavenAddress online memorial and tribute solution,
- development of a new digital print solution to allow staff and clients to produce high quality on line order of service and life presentations
- upgrade of the ageing back office system and review of related processes to support the expanding business.

Comparable Australian operating EBITDA margin on sales declined marginally from 24.3% in 2013 to 24.1% in 2014. The decline was driven by the cemeteries and crematoria which were impacted by a shift in sales mix towards lower margin memorial sales. Additional costs associated with digital projects and an easing of head count and marketing cost restrictions put in place in 2013 also impacted margins in the second half.

New Zealand comparative EBITDA margins (in local currency) increased from 19.2% in 2013 to 20.4% in 2014. The improvement reflected the impact of higher case volumes which were up 6.4% on 2013. Year on year margin improvement was more pronounced in the first half when costs remained tightly controlled pending an improvement in case volumes which corrected in the second half. Despite higher volumes, second half margins of 21.3% were down on 2013 of 22.9% as the tight controls that had been held on marketing and labour costs were eased to more sustainable levels.

Singapore EBITDA margins (in local currency) improved from 47.9% to 48.5%. The improvement was driven by a combination of case volumes which were up 1.3% and tight control of operating costs.

Depreciation and amortisation expenses

Depreciation and amortisation expenses were up $1.4 million in 2014 to $19.2 million (2013: $17.8 million). This increase included $0.1 million associated with a full year of the 2013 New Zealand acquisitions. The remainder of the increase was associated with increased capital spend on property refurbishments, new locations and continued investment in digital technologies.

Finance costs

Finance costs declined by $1.3 million to $15.5 million (2013: $16.8 million). The decrease relates mainly to the refinancing of the Group's borrowings at the end of 2013 and the rollover of some fixed rate swap contracts in September 2014. These combined initiatives delivered a lower effective interest rate for the year. More information about the Group's debt facilities is set out under the Capital Management section.

Acquisition related costs

Acquisition costs of $1.2 million were up $0.7 million on the prior year (2013: $0.5 million). This included start-up expenses of $0.8 million associated with InvoCare USA, Inc. details of which are summarised later in this report. Other expenses included costs associated with the acquisition of Crawford & Sons funeral business in Melbourne, two cremation memorial parks in Christchurch, New Zealand, and other opportunities both closed or currently under investigation.

Share of associate

After contributing $5 million equity in January 2013, InvoCare has a 35% investment in HeavenAddress which provides on-line memorial solutions. The company is in the early stages of its development and InvoCare has recognised a $0.5 million share of the operating losses in accordance with equity accounting standards, as well as an impairment in the carrying value more fully explained under the heading "Impairments".

Undelivered prepaid contract gains

Net gains on undelivered prepaid contracts were $10.9 million, an improvement of $9.3 million on 2013. The current year gain comprised $24.8 million increase in the fair value of funds under management offset by $13.9 million growth in the future liability to deliver prepaid services (see table (a) below).

The fair value uplift of $24.8 million in funds under management was $4.2 million up on 2013 and represented an effective earnings rate of 6.4% (2013: 5.7%).

During the year the preneed liability was increased to progressively recognise the impact of planned in year price increases. This resulted in liability growth of $13.9 million which was down on last year's $19.0 million. The liability growth was lower in 2014 as there was only one price increase taken compared to 2013 which included an interim price increase as well as the annual price increase in December.

(a) Income statement impact of undelivered prepaid contracts

	2014 $'m	2013 $'m
Gain / (loss) on prepaid contract funds under management	**24.8**	20.6
Change in provision for prepaid contract liabilities	**(13.9)**	(19.0)
Net gain / (loss) on undelivered prepaid contracts	**10.9**	1.6

(b) Movements in prepaid contract funds under management

	2014 $'m	2013 $'m
Balance at the beginning of the year	**373.6**	350.9
Sale of new prepaid contracts	**33.4**	32.0
Initial recognition of contracts paid by instalment	**3.2**	2.9
Redemption of prepaid contract funds following service delivery	**(35.4)**	(32.8)
Increase due to business combinations	**1.4**	-
Increase in fair value of contract funds under management	**24.8**	20.6
Balance at the end of the year	**401.0**	373.6

(c) Movements in prepaid contract liabilities

	2014 $'m	2013 $'m
Balance at the beginning of the year	**376.5**	355.1
Sale of new prepaid contracts	**34.0**	32.0
Initial recognition of contracts paid by instalment	**3.2**	2.9
Decrease following delivery of services	**(35.2)**	(32.5)
Increase due to business combinations	**1.4**	-
Increase due to reassessment of delivery costs	**13.9**	19.0
Balance at the end of the year	**393.8**	376.5

Approximately 79% of InvoCare's prepaid funds under management are with the Over Fifty Guardian Friendly Society. This fund now holds approximately 73% of its assets in cash and fixed interest compared to 60% at 31 December 2013. The increase in cash and fixed interest was attributable to a property sale which was completed in late 2014. Proceeds of this sale are currently being reinvested which may see a further shift in asset mix towards equities or property if the right opportunities are found.

Movements in the total asset mix of all funds under management over the last 12 months are illustrated in the following table:

	31 Dec 2014 %	30 June 2014 %	31 Dec 2013 %
Equities	10	11	13
Property	16	22	23
Cash and fixed interest	74	67	64

Asset sale gains and losses

After tax gains on the sale of assets of $0.4 million relates primarily to the disposal of owned motor vehicles in the normal course of business. In the previous year, the sale of surplus property assets resulted in after tax gains of $3.2 million.

Impairments

Under IFRS, InvoCare is required to regularly review the carrying value of its business assets. Due to continued improvement in financial performance, the prior impairment on certain cemetery assets was partially reversed during the year resulting in an after tax gain of $1.8 million.

Offsetting the above impairment reversal was an impairment of $1.4 million (after tax) made against the Group's associate. 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. The investment will continue to be monitored and the impairment revisited at future dates based on actual performance.

The above two items resulted in a net after tax impairment gain of $0.4 million (2013: $2.2 million).

Income tax expense

Income tax expense on reported profit was $22.6 million (2013: $19.0 million), representing an effective rate of 29.3% (2013: 28.0%).

Income tax expense on operating earnings[3] increased by $1.4 million to $19.2 million (2013: $17.8 million) and the effective rate was 29.4% (2013: 29.5%).

The main contributors to the effective rates being different to Australia's corporate 30% tax rate are set out in the following table:

	2014 $'m	2013 $'m
Prima facie tax at 30% (2013: 30%) on profit from ordinary activities	**23.2**	20.4
Plus/(minus):		
Previously unrecognised capital losses offsetting capital gains and unrecognised capital losses	**(0.2)**	(0.7)
Eliminations of translation gains / (losses) on intercompany balances in foreign currencies	**0.1**	0.4
Reassessment of depreciation rates applicable to New Zealand assets	**-**	(0.6)
Acquisition costs not deductible	**0.3**	0.1
Share of net profit of an associate	**0.1**	0.1
Other items (net)	**0.1**	0.4
Difference in overseas tax rates	**(0.9)**	(0.8)
Under / (over) provision in prior years	**(0.1)**	(0.2)
Income tax expense	**22.6**	19.0

[3] Operating earnings is non-IFRS financial information

Cash flow highlights

	2014 $'m	2013 $'m
Net cash provided by operating activities	**71.8**	72.2
Asset sale proceeds	**1.0**	8.0
Asset purchases	**(26.7)**	(19.3)
Purchase of subsidiaries and businesses	**(6.7)**	(8.1)
Purchase of interest in associates	**-**	(5.0)
Net cash used in investing activities	**(32.4)**	(24.4)
Dividends paid to InvoCare shareholders	**(38.8)**	(37.4)
Deferred Employee Share Plan purchases	**(1.2)**	(0.8)
Net (decrease) / increase in borrowings	**2.3**	(6.8)
Other movements	**(0.2)**	(0.1)
Net cash from / (used) in financing activities	**(37.9)**	(45.1)
Net increase in cash during year	**1.5**	2.7
Cash at start of year	**8.9**	6.1
Exchange rate effects	**0.1**	0.1
Cash at end of the year	**10.5**	8.9

Continued focus on working capital management resulted in a 106% operating EBITDA conversion to cash for the period, which was slightly down on the 110% achieved for 2013 as shown in the table below.

	2014 $'m	2013 $'m
Operating EBITDA	**101.1**	95.1
Cash provided by operating activities	**71.8**	72.2
Add finance costs	**15.0**	16.3
Add Income tax paid	**20.2**	15.9
Less interest received	**(0.2)**	(0.1)
Ungeared, tax free operating cash flow	**106.8**	104.3
Proportion of operating EBITDA converted to cash	**106%**	110%

Cash flows provided by operating activities showed a slight decline on last year by $0.4 million to $71.8 million. Part of this decline was driven by higher income tax instalments paid in 2014 compared to 2013.

Capital expenditure (including the acquisition of a strategic property in Perth) related to:

	2014 $'m	2013 $'m
Property, refurbishments and facility upgrades	**12.5**	8.0
Motor vehicles	**6.4**	6.5
Digital Business	**4.7**	2.1
Other assets	**3.1**	2.7
Total capital expenditure	**26.7**	19.3

Purchases of subsidiary and businesses included the deposit paid on the proposed purchase of two memorial parks in Christchurch, New Zealand, the acquisition of the Macera cremation business in Southern California, USA, and the purchase of the Charles Crawford and Sons Funeral business in Melbourne.

Dividends paid in the year were 35.25 cents per share, totalling $38.8 million. The amount included $5.6 million for the on market purchase of shares for the dividend reinvestment plan.

Shares amounting to $1.2 million (2013: $0.8 million) were acquired during the year by the InvoCare Deferred Employee Share Plan Trust in connection with long term, share-based incentives for senior management.

Capital management

At 31 December 2014, the Group had drawn down $230 million borrowings (from total $255 million debt facilities) compared to $239 million at 30 June 2014 and $225 million at 31 December 2013. Net debt at 31 December 2014 was $220 million which compared to the balance at 30 June 2014 of $223 million and 31 December 2013 of $216 million.

During the year there was no change to the $255 million bi-lateral, multi-currency, revolver facilities which comprise three year tranches of $85 million, maturing in September 2016, and five year tranches of $170 million, maturing in December 2018.

The three year tranches are provided in equal proportions by Australia and New Zealand Banking Group Limited ("ANZ") and Commonwealth Banking Group Limited ("CBA"). The five year tranches are provided in equal proportions by ANZ, CBA, Westpac Banking Corporation ("Westpac") and HSBC Bank Australia Limited ("HSBC") or their New Zealand affiliates.

The current facilities' drawings comprise AUD164.0 million, SGD33.0 million and NZD37.0 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 2014, being 2.2 and 7.5 respectively.

To maintain certainty over cash flows, the Group's policy is to maintain at least 75% of hedging cover for the next 12 months of forecast borrowings and 50% beyond twelve months up to a maximum of five years. At balance date, 76% of debt principal was covered by floating to fixed interest rate swaps. The table below shows the current swap profile, including the fixed rate payable in return for receipt of floating rates (eg. BBSW in the case of AUD denominated borrowings). As a consequence of hedging, InvoCare has not enjoyed the benefit of the recent reductions in market rates on its hedged debt.

Swap Principal	Start Date	Termination Date	Fixed Rate Payable
AUD 30.0m	Jun-2011	Sep-2015	5.33%
AUD 60.0m	Sep-2013	Sep-2016	4.77%
AUD 60.0m	Sep-2014	Sep-2017	4.00%
NZD 27.0m	Sep-2011	Sep-2015	3.82%
NZD 27.0m	Sep-2015	Sep-2018	4.49%

The overall average effective interest rate is currently 5.7% (2013: 6.1%), inclusive of fixed rates on hedged debt, floating rates on unhedged debt, margins (based on tranche tenor and leverage – currently averaging around 166bps), undrawn commitment fees and amortisation of establishment fees.

Headroom on the debt facilities of $25.0 million and cash of $10.5 million, provide $35.5 million in available funds at 31 December 2014. This amount together with operating cash flows will provide further capacity to fund near term growth opportunities.

InvoCare USA, Inc.

The United States of America has been identified as a new market for InvoCare to enter in its pursuit of growth opportunities. The country has an improving economy, a similar demographic profile to Australia and relatively low sovereign and country risk compared to other foreign markets. The country's funeral industry is the largest in the developed world and, beyond the industry consolidators, the competitive landscape remains highly fragmented.

An experienced senior executive from the funeral industry in that country was engaged to develop a strategy and plan for a low cost, low risk initial pilot entry into the country. Southern California was selected as the initial market to establish a small InvoCare presence. The annual number of deaths in that market is around 100,000, similar to InvoCare's Australian funeral markets. A small cremation business was acquired in late 2014 and greenfield funeral service operations have been established in Los Angeles, Orange County and San Diego.

During the expected three year start-up and proving stage of this development, the new operation is anticipated to be loss making, with negative EBITDA of up to USD2 million per annum and similar annual net operating losses. Annual sales are not expected to exceed USD10 million until the third year. The expected investment over this initial period is approximately USD8 million. There is significant potential upside in the subsequent years should the venture succeed with future annual returns on that Southern Californian investment forecast to grow and exceed InvoCare's current return on invested capital.

Through establishing a successful maiden presence in the United States of America, InvoCare will improve its existing knowledge of the market and be better positioned to capitalise on further longer term growth opportunities, whether by additional greenfield expansion or by selective and more significant existing business acquisitions.

Outlook

Group funeral case volumes in January 2015 are up 3.9% (comparable 3.4%). Funeral case contract averages improved in line with December price rises and operations are in line with expectations.

InvoCare USA, Inc. will commence operations in February 2015 and is expected to generate operating losses of approximately $2.0 million during the year ended 31 December 2015.

In July 2014 the New Zealand Commerce Commission granted InvoCare permission to proceed with the acquisition of two memorial parks in Christchurch. Since that time InvoCare has continued negotiations with the vendor and the New Zealand Overseas Investment Office to satisfy the remaining foreign investment requirements. These acquisitions are expected to be completed by the end of the first quarter of 2015 and will deliver annual sales and EBITDA of approximately NZD1.7 million and NZD0.5 million respectively.

In December 2014 InvoCare completed the purchase of Charles Crawford & Sons, an established funeral business located near Melbourne. This business will contribute sales of approximately $1.1 million in 2015.

InvoCare continues to review other expansion opportunities both in Australia and abroad. There has been discussion with a number of potential vendors. There is no certainty about the success or timing of any acquisitions, nor of any movement into new markets.

Prepaid funeral fund returns in 2014 benefited from a one-off property transaction which will not necessarily be repeated in 2015. In addition, the declining interest rate environment means the returns achievable on cash and fixed interest investments will become more challenging. Despite this, overall returns are expected to continue to exceed the increase in contract liabilities. This outlook assumes the current asset mix stays largely unchanged, targeted investment returns are achieved and the equity and property markets remain stable.

The Group's capital expenditure in 2015 is expected to be at similar levels to 2014. The main investments include the upgrading of funeral homes and operations centres, continuing investment in chapel facilities, further investment in digital technologies and cyclical replacement of motor vehicles. InvoCare will continue its practice of reviewing the performance of its property assets and, if required, may dispose underperforming assets.

There has been no change to InvoCare's capital management plans. Sufficient funds are expected to be available from debt facilities and free cash flows for capital expenditure and smaller "bolt on" acquisitions. If a more substantial opportunity arises, alternative funding sources, such as an equity raising, would be considered. Although maturing in Sept 2016, InvoCare will need to renew its $85 million bi-lateral debt facility in December 2015 in order to maintain non-current classification at year end. No other debt facilities are due to mature in 2015.

It remains the policy of the Board to distribute at least 75% of operating earnings after tax[4] as dividends, as well as increase the quantum of those dividends year on year. Following the strong operating performance and sustained operating EBITDA to cash conversion, a final dividend of 20.75 cents per share has been recommended for the year ended 31 December 2014 payable on 2 April 2015. This represents a 6.4% or 1.25 cents increase on the 2013 final dividend of 19.5 cents.

InvoCare remains committed to its core pillars for continued growth in 2015. Areas of focus in 2015 include:

- Investing in our facilities and developing a corporate culture that will enhance the experience of our client families;
- Continued investment in advertising, marketing and digital business to drive brand awareness, customer satisfaction, market share improvement and business efficiencies;
- Focus on organisational business practices and processes to deliver improved operational performance;
- Development of the InvoCare USA operations;
- Complete integration of the Christchurch memorial park acquisitions; and
- Seeking sustained returns on funds under management.

Significant events after the balance date

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
Member of Audit Committee
Chairman of Nomination Committee
Member of Remuneration Committee
Age 65 years
Appointed October 2003

Richard Fisher has been a director of InvoCare Limited since 24 October 2003 and was appointed Chairman on 22 October 2013. He is General Counsel to The University of Sydney and is an Adjunct Professor in both its Graduate School of Government and Faculty of Law. Richard is the immediate past Chairman of Partners at Blake Dawson and specialised in corporate law during his 25 years as a partner of that firm. He was appointed as a director of Sydney Water effective 1 January 2012. Richard is a former part-time Commissioner at the Australian Law Reform Commission, former Member of the Library Council of NSW and was an International Consultant for the Asian Development Bank. 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: 11,956 ordinary shares in InvoCare Limited

[4] Operating EBITDA and operating earnings after tax is non-IFRS financial information.

Mr Andrew Smith BCom MBA CA
Chief Executive Officer
Age 44 years

Appointed January 2009

Andrew joined InvoCare in January 2006 as Chief Financial Officer and was promoted to Chief Operating Officer in March 2007. On 1 January 2009, Andrew was promoted to Chief Executive Officer and Managing Director. He will be retiring on 30 April 2015. Prior to joining InvoCare Andrew held the position of Chief Financial Officer with Brazin Limited and previously OrotonGroup Limited. Andrew was also Financial Controller for Sales and Marketing at a major international fast moving consumer goods company, an Internal Audit Manager for a global insurance company and an Audit Senior at KPMG. Andrew was appointed as a director of Over Fifty Guardian Friendly Society Limited on 24 March 2009. He holds a Bachelor of Commerce from the University of Queensland, a Master of Business Administration from the University of New England and is a member of the Institute of Chartered Accountants Australia and New Zealand.

Interest in shares: 255,488 ordinary shares in InvoCare Limited

Dr Christine (Tina) Clifton MB BS (Hons) BHA
Non-executive Director
Chairman of Risk Committee
Member of Audit Committee
Member of Nomination Committee
Age 59 years
Appointed October 2003

Tina Clifton has been a director of InvoCare Limited since 24 October 2003. She is a registered medical practitioner, and formerly a Councillor of the University of New South Wales, a director of various public and private companies largely in the healthcare sector, including HCF, Health Care Australia, Ambri Ltd, the Garvan Institute of Medical Research, the Victor Chang Cardiac Research Institute, and St Vincents Hospitals. 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. She has also been President of the Doctors Health Advisory Service and involved in NSW mental health services Official Visitors' programme. Tina holds degrees in medicine and health administration from the University of New South Wales and obtained a specialist qualification in medical administration (FRACMA).

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

Mr Roger Penman BEc FCA FTIA
Non-executive Director
Chairman of Audit Committee
Chairman of Remuneration Committee
Member of Nomination Committee
Age 60 years
Appointed January 2005

Roger Penman was appointed as a director of InvoCare Limited on 1 January 2005 and joined both the Audit Committee, as its Chairman, and the Remuneration Committee in February 2005. He became Chairman of the Remuneration Committee in December 2009. Due to a sudden unexpected health issue in early January 2015, Roger has been granted leave of absence until 30 June 2015, or such earlier date that he is fit to return to normal duties. Roger is a Partner in the Taxation Services division at Crowe Horwath Sydney, joining the firm in 1986. He has had over 30 years of high-level specialist tax consulting and general business experience, including mergers, acquisitions, initial public offerings and group restructures. Roger holds a Bachelor of Economics from the Australian National University, is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, a Fellow of the Taxation Institute of Australia, a member of the Australian Institute of Company Directors and a member of the Crowe Horwath International Tax Committee.

Interest in shares: 16,947 ordinary shares in InvoCare Limited

Ms Aliza Knox BA MBA
Non-executive Director
Member of Nomination Committee
Member of Risk Committee
Age 54 years
Appointed October 2011

Aliza Knox was appointed as a director of InvoCare Limited on 1 October 2011 and became a member of the Risk Committee later that month. Aliza is a digital media and financial service executive with more than two decades of broad international marketing and management experience. Aliza joined Twitter in Asia Pacific as Managing Director Online Sales in November 2012. She was formerly Managing Director of the Online Sales Group for Google Asia Pacific and then the Managing Director Commerce for Google Asia Pacific, with responsibility for China, India, South East Asia, Japan, Australia and all other countries in the region.

Her previous roles have included Senior Vice President at global payments technology company Visa International, with responsibility for commercial solutions and global product platforms, Senior Vice President at investing services and solutions provider Charles Schwab & Company, with responsibility for international wireless and Asian expansion, and Partner at Boston Consulting Group as head of its Asian Financial Services Practice.

She is also a Non-executive director of Singpost and GfK, as well as an advisor to several organisations and a government committee in Singapore.

Aliza holds a Bachelor of Arts, *summa cum laude*, (Applied Math and Economics) from Brown University (USA) and Masters of Business Administration with honours (Marketing) from New York University Graduate School of Administration (USA).

Interest in shares: 5,339 ordinary shares in InvoCare Limited

Mr Richard Davis BEc
Non-executive Director
Member of Risk Committee
Member of Remuneration Committee
Member of Nomination Committee
Member and Acting Chairman of Audit Committee (from 22 January 2015)
Age 59 years
Appointed February 2012

Richard Davis was appointed a non-executive director of InvoCare Limited 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 has been a non-executive director of Australian Vintage Limited since 5 May 2009 and is also Chairman of the Audit Committee of that company. During the year he was appointed as a director and Chairman of Monash IVF Group Limited leading up to its successful ASX listing. 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)
Monash IVF Group Limited (appointed non-executive director and chairman in June 2014)

Interest in shares: 586,607 ordinary shares in InvoCare Limited

Mr Gary Stead BCom LLB MBA
Non-executive Director
Member of Risk Committee (from 22 October 2014)
Member of Audit Committee (from 22 October 2014)
Member and Acting Chairman of Remuneration Committee (from 22 January 2015)
Member of Nomination Committee (from 1 September 2014)
Age 57 years
Appointed September 2014

Gary Stead was appointed a non-executive director of InvoCare Limited on 1 September 2014. Gary has spent 30 years in the financial services sector, including 20 years in investment banking and the past 10 years in investment management. He is currently Managing Director of Olympus Capital Asia Credit and prior to that, Chief Executive of Fortress Investment Group Australia, where he established its Australian operations in 2004. For 13 years he held various senior roles at Merrill Lynch, including Managing Director and head of mergers and acquisitions in Australia, Asia Pacific and Japan, co-head of investment banking and a member of the Management Committee in Merrill Lynch Japan Securities, and Vice Chairman, investment banking in Australia following earlier roles at both Schroders in Australia and Salomon Brothers in New York. Gary started his working career as a solicitor with Mallesons Stephen Jaques.

Gary holds commerce and law degrees from the University of New South Wales and an MBA from Wharton Graduate School of Business at the University of Pennsylvania.

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. 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. Phillip joined the board of Over Fifty Guardian Friendly Society Limited on 24 March 2009. 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: 84,233 ordinary shares in InvoCare Limited

Meetings of directors

Details of the meetings attended by each director during the year ended 31 December 2014 are set below.

	Board		Audit Committee		Risk Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Non-executive Directors										
Richard Fisher	12	12	4	4	3*	-	2	2	8	8
Christine Clifton	11	12	4	4	3	3	-	-	8	8
Roger Penman	11	12	4	4	1*	-	2	2	8	8
Aliza Knox	11	12	3*	-	2	3	-	-	8	8
Richard Davis	12	12	4*	-	3	3	2	2	8	8
Gary Stead	3	3	1	1	1*	-	-	-	5	5
Executive Director										
Andrew Smith	12	12	4*	-	3*	-	2*	-	-	-

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.

In addition to the above formal meetings of directors there were numerous informal meetings of the non-executive directors during the year. Those meetings were concerned, for the most part, with CEO succession planning and the appointment of both a new CEO and an additional director. In the case of the Chairman, for example, he attended some 60 such meetings as well as visiting numerous operational locations across Australia, New Zealand and Singapore.

Gary Stead was appointed director on 1 September 2014 and to each of the Audit Committee and Risk Committee on 22 October 2014.

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 Key Management Personnel attend Board and Committee meetings by invitation.

As a consequence of Roger Penman's ill health and his leave of absence, the following took effect from 22 January 2015 and until further reviewed by the Board:

- Gary Stead was appointed to the Remuneration Committee and will act as its Chairman; and
- Richard Davis was appointed to the Audit Committee and will act as its Chairman.

Corporate governance

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 2014. 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 ("CFO"); and
- Andi Luiskandl, Chief Information Officer ("CIO").

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 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 thorough background checks are undertaken to ensure that the individual has the appropriate background to become a director of the Company. Information about these checks is included in the Notice of Meeting when the director filling a casual vacancy stands for election. All Board members have formal letters of appointment which clearly articulate the roles, responsibilities, expectations and remuneration of directors.

The level of seniority of the role of senior executives determines whether a formally drafted contract of employment or a less complex letter of appointment is used to confirm employment. Regardless of type, all employment agreements clearly articulate duties and responsibilities and also rights and expectations.

Company secretary

The Company Secretary 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 undertaken 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 currently serves a diverse range of communities across Australia, New Zealand, Singapore and the USA and believes it is very important to ensure that a diverse range of people, specifically suited to the community being served are available for families in their time of need. This includes actively encouraging women at all levels of the organisation.

Women currently comprise 29% of the Board, 17% of other key management personnel, 29% of operational general managers in Australia and 50% of support general managers. Sixty-one per cent of total staff are women.

InvoCare's aspirational target is to exceed 30% of women in all the senior management positions outlined above. The Australian Group is a relevant employer under the terms of the Workplace Gender Equality Act and submitted its first report during 2014. The bench marking reports have only recently become available and as a consequence the Board has yet to consider the measurable specific targets based on the Gender Equality Indicators to be set for future years.

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

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 2014, 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. During the year, this resulted in the appointment of Gary Stead, as a Non-executive director, and the selection of Martin Earp as the new CEO.

Senior executive evaluation

After the conclusion of each financial year the CEO evaluates and documents the performance of the Other KMPs. The results of the achievement of targeted key performance indicators are reviewed by the Remuneration Committee. Also at this time, key performance indicator targets for the ensuing year are established. The Remuneration Committee and the Board also review and determine the Other KMPs' remuneration for the ensuing year.

The 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. When appointed, all new senior executives receive an induction appropriate to their experience, which is designed to ensure they can quickly and effectively participate in decision making. The programme is also designed to ensure that the executive gains a good working knowledge of both the industry and the Group covering the financial position, strategies and operations. This induction programme also focuses on the internal policies and procedures with a particular emphasis on the respective roles of the Board and its committees and those functions delegated to management.

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 KMPs attend Board and Committee meetings by invitation.

Corporate governance statement continued

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

Director	Audit	Risk	Nomination	Remuneration
Richard Fisher	✓		Chairman	✓
Tina Clifton	✓	Chairman	✓	
Roger Penman	Chairman		✓	Chairman
Aliza Knox		✓	✓	
Richard Davis	Acting Chairman	✓	✓	✓
Gary Stead	✓	✓	✓	Acting Chairman

During Roger Penman's leave of absence due to illness, Richard Davis is interim Chairman of the Audit Committee and Gary Stead is interim Chairman of the Remuneration Committee

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. The Committee believes that the Board has a healthy mix of skills to ensure the ongoing development and growth of the Group.

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 Chief Executive Officer succession planning, Board succession planning and Board and committees' performance appraisals.

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 require 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 / Industry	Legal	Accounting / Finance	Marketing / Digital	Health	International Business
Richard Fisher	✓	✓				✓
Tina Clifton	✓				✓	
Roger Penman	✓		✓			✓
Aliza Knox	✓			✓		✓
Richard Davis	✓		✓			✓
Gary Stead	✓	✓	✓			✓
Andrew Smith	✓		✓			✓

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, executives and staff, 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 Committee

The Audit Committee provides assistance to the Board in fulfilling its corporate governance, financial 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 Committee.

The Audit Committee comprises four independent non-executive directors and is chaired by Roger Penman. Mr Penman is an FCA and brings a wealth of financial and taxation experience to the Committee. Other members are Christine Clifton, Richard Fisher and Gary Stead. The number of meetings held during the year and the individual attendances at those meetings is set out on page 22 of the Directors' Report.

The external auditor met with the Audit 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 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 occur 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, 22 May 2015 at the offices of PricewaterhouseCoopers, 201 Sussex Street, Sydney.

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 Risk Committee and Audit Committee, reviews and oversees the Group's risk management systems.

Risk Committee

The Risk 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 Risk Committee does not have responsibility for strategic (Board responsibility) or financial risk management, which is the focus of InvoCare's Audit Committee. 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 and the Committee of Sponsoring Organisations of the Treadway Commission's integrated framework 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 Risk 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 KMPs who are responsible for escalating these to the Risk 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 occupational health and safety issues. These are managed and reported to the Committee by relevant in-house specialists, including the Group Integration and Risk Manager and General Manager of Human Resources. 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 Risk Committee comprises four independent non-executive directors and is currently chaired by Christine Clifton. The other members are Aliza Knox, Richard Davis and Gary Stead. The number of meetings held during the year and the individual attendances at those meetings is set out on page 22 of the Directors' Report.

The Risk 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 conducts a series of risk-based and routine reviews in accordance with three-year strategic, and more detailed annual, internal audit plans. These plans are based on the existing risk environment and the level of inherent risk, i.e. the level of risk before the application of controls, in order to effectively identify and prioritise internal audit projects. Within a three-year period all key business systems and processes are regularly reviewed, either using in-house or external resources, to ensure that adequate levels of checks and balances exist to safeguard the assets of the Company and ensure that all transactions are correctly and promptly recorded.

Internal audit 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. In addition, internal audit reviews all systems improvements and enhancements prior to live implementation to ensure an adequate level of internal control and accountability are maintained. Exception reports have been developed that assist in continuous monitoring of major processes.

An informal process exists by which employees of InvoCare may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Internal audit would usually be involved in independent investigations of such matters and follow-up actions.

The Group Internal Audit Manager and Integration and Risk Manager meet privately with the chairs of the Audit and Risk Committees without management present on a regular basis.

Principle 8 – Remunerate Fairly and Responsibly

Remuneration Committee

InvoCare's remuneration policy ensures that remuneration packages properly reflect the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest calibre.

The Remuneration Committee reviews and makes recommendations to the Board on senior executive remuneration and appointment and on overall staff remuneration and compensation policies.

When making recommendations, the Committee aims to design policies that attract and retain the executives needed to run InvoCare successfully and to motivate executives to pursue appropriate growth strategies while marrying performance with remuneration.

The Remuneration Committee comprises four independent non-executive directors with Roger Penman as Chair and Richard Fisher, Richard Davis and Gary Stead as members. The number of meetings held during the year and the individual attendances at those meetings is set out on page 22 of the Directors' Report.

The 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 executives, and do not receive retirement benefits, bonus payments or incentive shares.

Executive remuneration and other terms of employment are reviewed annually by the Committee, having regard to personal and corporate 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, access by invitation to the Deferred Employee Share Plan and fringe benefits. The Remuneration Report which begins on page 28 provides detailed information about the current remuneration practices and the levels of remuneration.

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 those, 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 2014, 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. Remuneration governance
C. Use of remuneration consultants
D. Executive remuneration policy and framework
E. Relationship between remuneration and InvoCare's performance
F. Non-executive director remuneration policy
G. Voting at InvoCare's 2014 Annual General Meeting
H. Details of remuneration
I. Service agreements
J. Details of share-based compensation

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 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

Roger Penman

Aliza Knox

Richard Davis

Gary Stead (appointed 1 September 2014)

Other key management personnel

Andrew Smith (Managing Director and Chief Executive Officer)

Phillip Friery (Chief Financial Officer)

Greg Bisset (Chief Operating Officer Australia)

Andi Luiskandl (Chief Information Officer)

Wee Leng Goh (Chief Executive Officer Singapore)

Graeme Rhind (Chief Operating Officer New Zealand)

On 17 December 2014, it was announced that Martin Earp will replace Andrew Smith as Managing Director and Chief Executive Officer with effect from 1 May 2015. Information relating to Martin Earp's remuneration is disclosed in the relevant sections of this report.

Following a sudden and serious health issue suffered by Roger Penman on 1 January 2015, he has been granted leave of absence until 30 June 2015 or such earlier date as the Board is advised that he is fit to return to normal duties.

B. Remuneration Governance

The Board has an established Remuneration Committee which critically reviews the Group's remuneration policy and, under its charter, has the following primary functions:

- review and make recommendations to the Board regarding the remuneration and appointment of senior executive officers and non-executive directors;
- review and make recommendations to the Board regarding policies for remuneration and compensation programmes of the Group focusing on appropriate remuneration policies designed to meet the needs of the Group and enhance corporate and individual performance;
- review and make recommendations to the Board regarding administration of remuneration and compensation programmes;
- review and make recommendations for approval by the Board regarding all reports on executive remuneration required by law or regulation proposed to be included in the annual report;
- review and make recommendations to the Board regarding all equity based remuneration or compensation plans; and
- report to the Board regularly on each of the above matters.

During 2014, the Remuneration Committee considered the emerging market remuneration practices and legislative developments.

Both the previous and this latest Remuneration Report provide commentary about any changes to remuneration arrangements and outline the Directors' rationale for the practices adopted.

The Remuneration Committee makes recommendations to the Board in relation to the remuneration of the CEO.

The CEO recommends the remuneration of all other key management personnel. The Remuneration Committee reviews the recommendation before submission to and approval by the Board of Directors.

The key management personnel determine the remuneration of other senior management, within both the Remuneration Committee remuneration policy framework and a defined budget approved by the Board.

C. Use of remuneration consultants

The Remuneration Committee conducted its remuneration review with assistance detailed below from independent remuneration consultant Mr Ian Crichton of Crichton and Associates ("C+A"), a specialist consultancy and advisory business dedicated to all aspects of director and executive compensation and equity incentive strategies.

C+A was appointed in December 2014, in writing, by the Chairman of the Remuneration Committee, to undertake a remuneration benchmark assessment and analysis in respect of Director and selected key management personnel remuneration. Reports were provided to the Chairman of the Remuneration Committee during December 2014 and January 2015. The information provided was used, in part, to assist the Board in determining changes to Director and key management personnel remuneration for the 2015 financial year. C+A received a fee of $13,565 (excluding GST and out of pocket expenses) for this work.

C+A did not make any "remuneration recommendations" as defined in the *Corporations Act 2001* in the 2014 financial year.

D. 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, and 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 Chief Executive Officer's and senior executives' total remuneration be targeted at the 50th percentile of comparable positions in comparable size companies (taking into account sales revenue, number of employees, net profit after tax and market capitalisation) which is achieved when individual and overall Group performance targets are met.

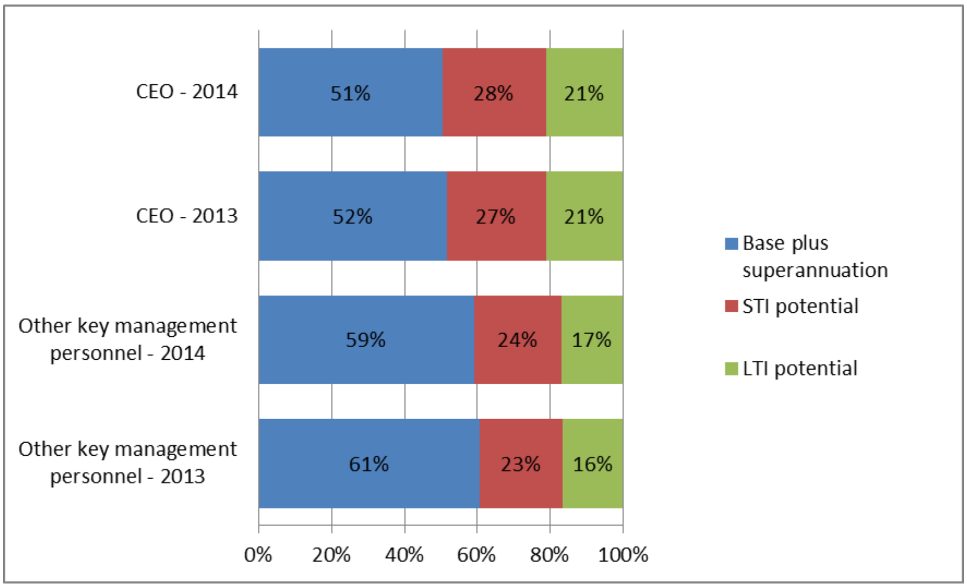
Remuneration structure

InvoCare's compensation structure aims to provide a balance of fixed and variable remuneration components. Variable components are tied to the performance of the Group and of the individual and are entirely at risk.

The compensation of the Chief Executive Officer and other key management personnel is comprised of payments and/or allocations under the following categories:

- base salary and benefits, including 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 bonuses.

The target remuneration mix for the CEO and other key management personnel, as depicted in the following graph (and averaged for the other key management personnel), 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.



No director or other key management personnel has, at 31 December 2014 or during or since the end of the financial year, had any loans to or from the Group or any options over unissued ordinary shares of InvoCare Limited.

Base salary and benefits

Executives are offered a market competitive base cash salary, together with annual leave and post-employment superannuation benefits in accordance with relevant jurisdictional statutory requirements and other non-monetary or incidental benefits. An executive may elect to structure the base salary and benefits as a combination of cash and other benefits.

The cash salary is reviewed on a regular basis against market data for comparable positions provided by independent remuneration consultants and selected survey data. Adjustments to base salary are based on increases in role scope or responsibility, pay position relative to market and relative performance in the role. No guaranteed base pay increases are included in any executive's service agreements.

Non-monetary benefits may include provision of fully maintained cars and car parking spaces. Other incidental benefits may include payment of total and permanent disablement, death and salary continuance insurance premiums and nominal discounts for funerals of immediate family members.

In Australia, entitlements accrue for employee's long service and, subject to relevant statutory requirements and qualifying periods, the entitlement may be taken as leave or is payable to the employee upon termination of employment.

Termination benefits are provided in the respective individual contracts of employment and are normally limited to statutory entitlements, such as accrued but untaken leave, and payments in lieu of notice, which generally range between one month and up to a maximum of six months. Details for key management personnel service agreements are set out on page 39 under the heading "I. Service Agreements".

Short-term incentives

STIs are awarded for achievement of pre-determined financial and non-financial objectives. For key management personnel, the target criteria and possible bonus levels are defined each year by the Remuneration Committee and Board. For other executives, the key management personnel determine the objectives and reward levels, subject to ratification by the Remuneration Committee, 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 is up to a maximum of 56.3% of base salary plus superannuation for the CEO and up to a maximum 52% for the other key management personnel. The target criteria for key management personnel are heavily weighted to overall financial performance, being up to 47% of the potential STI opportunity, but are also tailored to the relevant circumstances of each executive.

In summary, the criteria used to determine short-term bonuses for key management personnel 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, including through opening new locations in existing markets, entering new markets or acquiring businesses;
- Innovation in customer service delivery and business operations, including introducing new products and services, modifying operating models and further developing or strengthening brand positioning;
- Develop and implement digital business strategies, embracing and harnessing new or existing technologies (e.g. social media) to enhance customer service and business efficiencies; and
- Continue to grow the prepaid funeral business and, where possible, influence independent fund managers to adopt appropriate asset allocations and achieve investment returns in excess of price rises and investment management costs.

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, these objectives include key performance indicators such as case average pricing, sales of prepaid contracts, the management of labour costs, client survey results and debtors' days outstanding.

Most 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. In some jurisdictions quarterly market share incentives are paid upon achievement of targets. The Remuneration Committee considers that STI bonuses are awarded for achievement of key performance criteria for a particular financial year 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, encourage executives to remain employed with the Group and ensure alignment with shareholder interests.

Based upon achievements in 2014, the Remuneration Committee determined the CEO and other key management personnel achieved an average 77% of their target STI opportunity.

The following factors were among those considered by the Remuneration Committee in making its assessment on the remainder of the STI opportunity:

- Financial performance was improved on the previous year, with achievement of Group EBITDA targets, stabilisation of market share after losses during 2013, better investment performance of prepaid funeral funds and lower debt financing costs after successful conclusion to refinancing negotiations in late 2013;
- Negotiations with potential business vendors continued during the year with the successful completion and integration of a small funeral business in Australia and the taking of further steps to secure ownership of two crematorium operations in New Zealand; and
- Roll out of digital strategy across the business.

Long-term incentives

Recognising the importance of an appropriate long-term incentive for rewarding and retaining senior management, 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 ("LTI shares").

In the case of Singapore and New Zealand based senior executives who may not be able to participate in Australian share offers, share appreciation rights ("LTI rights") may be offered which mirror the same outcomes for the employee as LTI shares. The long term incentive for the Chief Operating Officer InvoCare USA, details of which are set out below, differs to arrangements for executives in Australia, Singapore and New Zealand more fully described in the immediately following paragraphs.

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.

No consideration is payable by the employee for the offer of LTI shares or LTI rights, but they are subject to continuous service and, for senior management, performance conditions.

The LTI shares are purchased on market and hence the DESP is operated on a completely non-dilutive basis. LTI rights are valued by reference to the market value of InvoCare shares at the time of the offer. The value of LTI shares or LTI rights offered is up to a maximum of 41.8% of base salary plus superannuation for the CEO (based upon his 2014 remuneration) and up to a maximum 35.0% for the other key management personnel.

Vesting of the LTI shares and LTI rights will be in three equal tranches in February of each of the second, third and fourth subsequent years after the year of offer. Unless otherwise determined by the Board in its sole discretion, unvested LTI shares and LTI rights will be forfeited on death and disability, retirement or resignation or other employment termination.

The LTI shares are held in trust until vesting and the employees will be entitled to any dividends paid in respect of unvested, unforfeited shares. Similarly, notional dividend amounts will be paid to holders of unvested, unforfeited LTI rights coinciding with the payment of InvoCare dividends. The Remuneration Committee considers the payment of dividends on unvested shares or rights reinforces the value of the long-term reward. The practice helps align the managers' interests with those of InvoCare shareholders through appreciation of the importance of dividend benefits and provides further incentive for managers to remain with InvoCare until vesting conditions are met.

Upon vesting of LTI shares, the employee has the discretion to leave the LTI shares in trust, withdraw or sell any number of them. In accordance with InvoCare's Share Trading Policy, 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.

Upon vesting of LTI rights, the employee will be paid in cash an amount equivalent to the number of vested LTI rights multiplied by the value of those rights derived by reference to the market value of InvoCare shares.

Performance conditions apply to senior managers who have an important strategic role impacting InvoCare's financial performance and relate to compound growth per annum in normalised earnings per share over the vesting period. "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; and
- to maintain consistency in accounting policies across the respective vesting periods for each grant.

Compound growth per annum of normalised earnings per 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 from C+A and analysis by the Board.

As part of its normal review of remuneration policy, the Remuneration Committee re-affirmed the appropriateness of the earnings per share 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, unique business without a true comparator peer or group to benchmark performance against;
- 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 more closely reflects management performance and success in incrementally creating value through good decision making and sustained and improving performance over time.

For 2014 offers, the 2013 base comparison year earnings per share was set at 39.7 cents per share to exclude the net gains from asset sales and impairments in 2013. For 2015 offers, the 2014 base comparison year earnings per share has been set at 49.1 cents per share which excludes the net gains from asset sales and impairments in 2014.

LTI shares or LTI rights granted in 2015, 2014, 2012, 2011 and 2010 vest 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
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

LTI shares or LTI rights granted in 2013 vest 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%	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

The performance conditions for LTI shares and LTI rights were selected following analysis of:

- historic and forecast EPS growth in the ASX/S&P 200; and
- InvoCare's own earnings forecasts derived from its annual five-year plans.

If the compound EPS growth performance conditions are not met at the vesting date, the LTI shares or LTI rights 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 shares at the fifth anniversary of the grant are forfeited.

The Remuneration Committee continues to support as fair and reasonable the consideration that the LTI plan provides for a cumulative EPS test over the vesting period. Each grant is split into three tranches with vesting ranging over two and up to a maximum of five years after each grant. This is to allow for the impact that the number of deaths, which is outside the control of management, has on InvoCare's annual result, in particular given the fixed cost nature of the business.

To receive 100% of the LTI shares or LTI rights, 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.

Remuneration report

The following table summarises the performance to date for the grants made since 2010 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
2010	7% to 10%	32.3 cents	February 2012 – not satisfied, first 1/3rd not vested February 2013 – not satisfied, first and second 1/3rd not vested February 2014 – not satisfied, all tranches not vested February 2015 – Not satisfied, all unvested shares forfeited
2011	7% to 10%	33.9 cents	February 2013 - not satisfied, first 1/3rd not vested February 2014 – not satisfied, first and second 1/3rd not vested February 2015 – not satisfied, all tranches not vested February 2016 – to be determined
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 – to be determined February 2017 (if required)
2013	7% to 12%	38.7 cents	February 2015 – 100% of first 1/3rd tranche vested February 2016 – to be determined February 2017 – to be determined February 2018 (if required)
2014	7% to 10%	39.7 cents	February 2016 – to be determined February 2017 – to be determined February 2018 – to be determined February 2019 (if required)
2015	7% to 10%	49.1 cents	February 2017 – to be determined February 2018 – to be determined February 2019 – to be determined February 2020 (if required)

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

Further details of LTI shares and LTI rights are set out on page 42 under the heading "J. Share-based Compensation".

E. 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 shareholder value since listing as depicted by key performance indicators for the Group in the tables below.

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Reported profit after tax ($m) – note 1	**$54.5**	$48.9m	$44.5m	$27.0m	$27.4m	$48.1m	$28.0m	$27.6m	$24.0m	$20.1m
Basic earnings per share (cents)	**49.8¢**	44.7¢	40.6¢	25.6¢	26.9¢	47.7¢	28.0¢	27.6¢	24.7¢	21.0¢
Normal dividends ($m) – note 2	**$40.1m**	$37.9m	$37.4m	$32.5m	$28.9m	$25.7m	$23.6m	$22.5m	$19.2m	$16.0m
Normal dividends per share (cents)	**36.5¢**	34.5¢	34.0¢	29.75¢	28.25¢	25.25¢	23.5¢	22.5¢	19.5¢	16.5¢
Total return per share ($) – note 3	**$1.41**	$2.60	$1.39	$0.71	$1.37	$1.28	($1.63)	$1.66	$1.56	$1.11
Total shareholder return (%) – note 3	**13%**	30%	18%	10%	22%	25%	(23%)	30%	37%	33%
Share price – 31 December	**$12.10**	$11.04	$8.78	$7.70	$7.28	$6.18	$5.15	$7.01	$5.57	$4.19
Shares on issue (m)	**110m**	110m	110m	110m	102m	102m	101m	100m	99m	97m
Market capitalisation ($m) – note 4	**$1.331m**	$1,215m	$966m	$847m	$746m	$629m	$519m	$703m	$552m	$406m
Enterprise value ($m) – note 5	**$1,550m**	$1,430m	$1,183m	$1,055m	$894m	$778m	$671m	$849m	$698m	$542m

1. From 2009, the Group changed its accounting policy for prepaid contracts following review by the Australian Securities & Investments Commission which introduced volatility into reported results associated with mark to market valuations of prepaid funds under management recognised on balance sheet for the first time. With a sizeable asset allocation to equities in those prepaid funds, the 2009 and 2010 fair value movements were quite significant as a consequence of the global financial crisis and equity returns in 2011 were subdued. Investment asset allocation tilts away from equities have reduced the return volatility.
2. A special dividend of 10.5 cents per share totalling $10.2m was paid in 2005 in addition to the normal dividends for that year.
3. 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.
4. Market capitalisation at 31 December, being number of shares on issue multiplied by share price at that date.
5. Enterprise value is market capitalisation plus net debt.

InvoCare's TSR compared to the S&P/ASX 200 Index for financial years ended 31 December since 2005 is set out below.

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
InvoCare Limited	**13.1**	29.8%	18.4%	10.2%	23.3%	25.2%	(23.5%)	30.6%	38.0%	33.6%
Percentile rank	**56.4%**	60.1%	37.3%	78.5%	72.9%	34.9%	77.1%	68.1%	66.0%	68.6%
S&P/ASX 200 Index										
75th percentile	**28.6%**	43.1%%	42.8%	5.7%	27.4%	125.9%	(24.2%)	36.6%	49.9%	40.6%
Median	**8.6%**	24.5%	25.8%	(10.0)	5.2%	46.8%	(45.8%)	12.9%	28.1%	18.9%
25th percentile	**(16.9%)**	2.4%	9.0%	(25.1%)	(7.1%)	12.4%	(63.3%)	(6.0%)	11.7%	0.4%

Source: Bloomberg as at 28 January 2015

Note: Based on net dividends reinvested and a base currency of Australian dollars. Index members based on membership as at the date of the Bloomberg data, not historical membership.

InvoCare's Total Shareholder Return ("TSR") for the financial years ended 31 December over the past 9 years compared to a range of similar international businesses is set out below.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
InvoCare Limited	13.1%	29.8%	18.4%	10.2%	23.3%	25.2%	(23.5%)	30.6%	38.0%
Percentile rank	33.6%	39.5%	42.5%	67.0%	49.3%	28.1%	57.0%	71.1%	99.1%
Service Corporation International	27.3%	33.4%	32.6%	31.6%	2.6%	70.3%	(64.0%)	38.6%	26.9%
Dignity plc	33.5%	33.3%	35.2%	16.1%	20.2%	3.2%	(16.2%)	12.3%	38.3%
Lung Yen Life Services Corp	16.5%	(7.1%)	8.8%	(16.0%)	419.2%	320.7%	(62.0%)	(32.6%)	(29.1%)
Stonemor Partners LP	11.2%	34.4%	(2.3%)	(15.4%)	68.5%	92.3%	(33.1%)	(13.3%)	33.8%
Stewart Enterprises Inc-CL	n.a	n.a	36.5%	(12.7%)	33.5%	75.9%	(65.7%)	44.5%	17.6%
Carriage Services Inc	7.9%	65.7%	114.7%	17.1%	23.5%	95.9%	(77.2%)	73.1%	1.8%
Funespana SA	22.1%	(2.9%)	(10.8%)	2.7%	20.2%	12.4%	11.3%	(43.0%)	(3.1%)
Tear Corporation	8.7%	92.1%	82.8%	(32.6%)	50.3%	62.6%	6.1%	(22.8%)	n/a
San Holdings Inc	32.4%	18.2%	(8.2%)	6.8%	(10.9%)	(16.3%)	1.5%	(2.3%)	(16.3%)
Mean	20.0%	33.4%	32.1%	(0.3%)	69.7%	79.7%	(33.3%)	6.1%	8.7%
Median	19.3%	33.3%	32.6%	2.7%	23.5%	70.3%	(33.1%)	(2.3%)	9.7%

Source: Bloomberg as at 28 January 2015

Note: Based on net dividends reinvested and a base currency of Australian dollars. Stewart Enterprises Inc was acquired by Service Corp International on 24th December 2013, but has been included to maintain historical data.

F. Non-executive director remuneration policy

Non-executive directors

Policy

The Board's primary focus is on the long-term strategic direction and overall performance of the Group. Accordingly, non-executive director remuneration is not linked to short-term results. Fees paid to non-executive directors are determined with the assistance of independent external advisers, C+A.

The remuneration policy is designed to:

- attract and retain competent and suitably qualified non-executive directors;
- motivate non-executive directors to achieve InvoCare's long-term strategic objectives; and
- align the interests of non-executive directors with the long-term interests of shareholders.

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 $1,000,000, being the amount approved by shareholders at the Annual General Meeting held on 11 May 2012.

This remuneration is divided among the non-executive directors in such proportion as the Board determines. During the 2014 financial year, annual fees for non-executive directors were $220,000 for the Chairman of the Board and $120,000 for each of the other non-executive directors. An additional $10,000 was paid to the Chairman of the Audit Committee.

Using market information from an external review of non-executive director compensation commissioned by the Board Remuneration Committee, the Board has determined 2015 fees will be increased by 5% and be $231,000 for the Chairman and $126,000 for each of the other non-executive directors. There was no increase in these fees in 2014. The Chairman of the Audit Committee will receive an additional $10,500 for the additional work associated with the Audit Committee. The aggregate of these fees is $871,500 which is below the current pool limit. The Directors propose to ask shareholders to consider increasing the pool limit at the next Annual General Meeting on 22 May 2015 to $1,250,000. An increase in the fee pool limit will permit additional directors to be appointed, if warranted, by the needs of the company as well as to respond to market increases.

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 2014 and 31 December 2013.

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 Deferred Employee Share Plan on a fee sacrifice basis. No shares have been issued or allocated to non-executive directors under the Deferred Employee Share 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 except Mr Gary Stead have equity interests in the Company higher than required. Mr Stead was appointed to the Board on 1 September 2014 and as a result has until 31 August 2017 to acquire the required shareholding. Directors' equity holdings are set out under the heading "Information on directors" on pages 16 to 19 of the Directors' Report and in Note 7: "Key Management Personnel Disclosures" on page 70 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.

G. Voting at InvoCare's 2014 Annual General Meeting

The Remuneration Report for the year ended 31 December 2013 received a vote of more than 90% in favour at the Annual General Meeting held on 23 May 2014.

At that AGM, a shareholder raised a question about the calculation methods and measures used in the Company's long term incentive scheme. The Chairman commented that the Board was aware of market commentary about long term incentive schemes and that its approach was calibrated to create maximum shareholder value. The Chairman of the Remuneration Committee also commented that remuneration practices are reviewed twice yearly, advice is obtained from an external remuneration consultant, earnings per share is believed to be appropriate and, although there may be some objections to the detail, the objectives of all parties are the same.

The Company did not receive any other feedback at the AGM regarding its remuneration practices.

H. 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 (note 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	**2014**	**201,143**	**-**	**-**	**18,857**	**-**	**-**	**-**	**220,000**	
(appointed chairman 22 October 2013)	2013	125,221	-	-	11,445	-	-	-	136,667	
Christine Clifton	**2014**	**109,714**	**-**	**-**	**10,286**	**-**	**-**	**-**	**120,000**	
	2013	109,966	-	-	10,034	-	-	-	120,000	
Roger Penman	**2014**	**130,000**	**-**	**-**	**-**	**-**	**-**	**-**	**130,000**	
	2013	120,000	-	-	-	-	-	-	120,000	
Aliza Knox	**2014**	**120,000**	**-**	**-**	**-**	**-**	**-**	**-**	**120,000**	
	2013	120,000	-	-	-	-	-	-	120,000	
Richard Davis	**2014**	**109,714**	**-**	**-**	**10,286**	**-**	**-**	**-**	**120,000**	
	2013	109,966	-	-	10,034	-	-	-	120,000	
Ian Ferrier	**2014**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
(resigned 22 October 2013)	2013	168,196	-	-	15,138	-	-	-	183,333	
Benjamin Chow	**2014**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
(resigned 16 August 2013)	2013	73,353	-	-	6,648	-	-	-	80,000	
Gary Stead	**2014**	**36,529**	**-**	**-**	**3,471**	**-**	**-**	**-**	**40,000**	
(appointed 01 September 2014)	2013	-	-	-	-	-	-	-	-	
Executive director										
Andrew Smith (note 12)	**2014**	**715,562**	**330,012**	**35,359**	**23,162**	**38,427**	**680,089**	**(182,874)**	**1,639,736**	**1,246,852**
	2013	720,246	122,227	39,945	21,989	20,149	264,881	(55,872)	1,133,565	1,168,354
Other key management personnel										
Phillip Friery	**2014**	**366,500**	**145,164**	**33,118**	**19,199**	**6,234**	**99,952**	**(122,546)**	**547,621**	**662,276**
	2013	366,253	64,517	30,402	19,000	10,504	97,893	(7,966)	580,603	546,983
Greg Bisset	**2014**	**350,962**	**141,644**	**26,545**	**26,791**	**7,440**	**130,373**	**(84,117)**	**599,639**	**642,482**
	2013	352,654	64,378	42,535	24,505	5,767	120,837	(9,323)	601,353	542,346
Andi Luiskandl	**2014**	**226,313**	**28,648**	**19,614**	**21,120**	**2,059**	**53,191**	**-**	**350,946**	**309,639**
	2013	248,715	37,089	20,222	23,146	1,284	36,605	-	367,061	333,044
Wee Leng Goh (note 10)	**2014**	**229,934**	**35,820**	**5,207**	**11,897**	**-**	**87,629**	**(41,712)**	**328,775**	**301,218**
	2013	195,359	26,921	7,323	11,103	-	76,012	-	316,718	249,425
Graeme Rhind (note 11)	**2014**	**199,319**	**88,542**	**12,266**	**8,806**	**-**	**59,028**	**-**	**367,961**	**321,117**
	2013	176,630	24,966	14,656	9,602	-	28,731	-	254,585	228,574

Notes to Remuneration Table:

1. The total cost of fees and salary, including annual leave taken and provided and, at the discretion of the director or employee, any salary or fee sacrificed benefits, for example into superannuation.
2. The amount to be settled in cash relating to performance of the Group and the individual for the financial year from 1 January to 31 December. The proportions of STI bonuses awarded and forfeited are set out in the following table.
3. The cost to the company, including any fringe benefits tax, for the provision of fully maintained cars, and other items.
4. Company 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. Except for Mr Smith (see note 12) 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, annual leave 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. The approximate market values of previous grants which were forfeited during the year were $367,888 for Andrew Smith, $246,525 for Phillip Friery, $169,219 for Greg Bisset and $65,957 for Wee Leng Goh.
10. Wee Leng Goh, Chief Executive Officer of Singapore Casket Company, received total remuneration of SG$375,852 (2013:SG$383,236), which has been converted to Australian dollars at the average exchange rate for year of 0.8747 (2013: 0.826).
11. Graeme Rhind, Chief Operating Officer of New Zealand, received total remuneration of NZ$397,586 (2013:NZ$297,272), which has been converted to Australian dollars at the average exchange rate for the year of 0.9199 (2013: 0.848).
12. Estimated termination benefits for Mr Andrew Smith as outlined under the Chief Executive Officer section below have been recognised in the 2014 financial report. The above table records the proportion of the LTI expense related to Mr Smith's service up until 31 December 2014. The remainder of the LTI expense and other termination benefits will be disclosed in the Remuneration Report for the year ending 31 December 2015.

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 %
Andrew Smith	79%	21%
Phillip Friery	78%	22%
Greg Bisset	76%	24%
Andi Luiskandl	40%	60%
Wee Leng Goh	72%	28%
Graeme Rhind	100%	0%
Average	**77%**	**23%**

I. Service Agreements

Chief Executive Officer

Remuneration and other terms of employment for the retiring Chief Executive Officer, Andrew Smith, have been formalised in a service agreement, which has been updated from time to time during his employment. The current agreement, which commenced on 1 January 2012 and comes to its natural end on 30 April 2015, 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 2015 and ending 30 April 2015 provides for Andrew Smith's remuneration as follows:

- Annual base salary and superannuation, unchanged from 2014 being $745,000, resulting in $248,333 for the four months to 30 April 2015;
- short-term incentive bonus of up to 56.3% (2014: 56.3%) of base salary and superannuation, being a maximum of $139,836 for the four months to 30 April 2015;
- LTI shares of $311,559 (2014: $311,559), being unchanged from 2014 at 41.8% of annual base salary and superannuation; and
- other benefits such as fully maintained motor vehicle and membership of relevant professional or commercial bodies.

The incoming Chief Executive Officer, Martin Earp, has entered into a service agreement, substantively consistent with Andrew Smith's, commencing on 30 March 2015 for a three year fixed term ending on 30 March 2018, subject to agreement to extend the term. He will assume the role of Chief Executive Officer on 1 May 2015. His starting remuneration package, which will be reviewed annually commencing 31 December 2015, comprises:

- annual base salary and superannuation of $763,000, being $572,250 for the period 30 March 2015 to 31 December 2015;
- short-term incentive bonus of up to 56.3% of base salary and superannuation, being a maximum of $322,177 for the nine months to 31 December 2015;
- LTI shares to the value of 41.8% of annual base salary and superannuation, with the first grant prorated for the period of employment in 2015 (that is LTI shares of $239,200); and

- other benefits such as fully maintained motor vehicle and membership of relevant professional or commercial bodies.

The Remuneration Committee and Board have the discretion to provide additional performance incentives. Under the CEO service agreements, where less than 100% of a short-term incentive bonus is achieved in a financial year, the employee may recover any shortfall in a subsequent financial year if the effective compound per annum achievement rate in a subsequent financial year exceeds the original rate not achieved.

Termination benefits for Andrew Smith

The Company is required, in accordance with the terms of Andrew Smith's service agreement, to pay the following amounts, or provide the following benefits, to Mr Smith on termination of his service agreement upon reaching its due termination date on 30 April 2015:

- a cash payment for any accrued but unpaid fixed remuneration, including superannuation, in respect of his employment by the Company up until 30 April 2015;
- a cash payment for accrued but untaken annual leave entitlements up to 30 April 2015, estimated to be $61,831 (or 21.9 days);
- a cash payment for accrued but untaken long service leave entitlements up to 30 April 2015, estimated to be $115,368 (or 40.8 days);
- a cash payment of a prorata amount of his STI award bonus for the year ending 31 December 2015, the maximum amount of which will be $139,836 with the actual amount determined based upon achievements against defined performance targets ("**2015 STI**"); and
- allow the automatic vesting of Mr Smith's unvested LTI shares that have previously been granted to him under his service agreement and in accordance with InvoCare's Deferred Employee Share Plan ("**LTI Automatic Share Vesting**").

The money value of Andrew Smith's unvested LTI shares has been calculated as approximately $1.4 million, based on 109,000 shares at $13.00 per share. The actual value of benefit received by Mr Smith may differ from that valuation and will be based upon the market value of shares at 30 April 2015.

Under the termination benefits provisions of the *Corporations Act 2001* (Cth), shareholders must approve the payment or provision of any 2015 STI or LTI Automatic Share Vesting termination benefits exceeding Andrew Smith's average annual fixed remuneration over the preceding three years. The Company intends to automatically vest unvested shares to the value of $770,000 (being the three year average of Mr Smith's fixed remuneration rounded down to the nearest $10,000) upon his termination on 30 April 2015 and seek shareholder approval on 22 May 2015 for the payment or provision of the balance of his contractual termination benefits above $770,000.

Termination arrangements for Martin Earp

The termination arrangements for incoming CEO, Martin Earp, are substantively consistent with those of Andrew Smith and are set out in the following paragraphs.

Termination by the Company, other than in the case of misconduct or redundancy, may be effected with six months' notice or by payment of six months total remuneration package, including a pro-rata short-term bonus for the year of termination based upon any bonus paid relating to the previous financial year. In addition, unvested LTI shares will immediately vest.

In the case of misconduct, the Company may terminate the employee immediately and without notice. Any unvested LTI shares will be forfeited and there will be no payment of pro-rata short-term incentive bonus amounts for the year of termination.

If the Company terminates the employee due to redundancy, the employee will be entitled to payment of an amount equal to the annual total remuneration package plus a pro-rata short-term bonus for the year of termination based upon any bonus paid relating to the previous financial year. Any unvested LTI shares acquired on behalf of the employee at least one year prior to the termination by redundancy will vest. Any unvested LTI shares acquired on behalf of the employee less than one year prior to the termination by redundancy will be forfeited.

If the employee resigns, the employee must give six months' notice or forfeit six months' total remuneration for that notice period. Any unvested LTI shares will be forfeited and there will be no payment of pro-rata short-term incentive bonus amounts for the year of termination.

If the term of the employee's service agreement is not extended by the Company, but the employee is willing to extend, any unvested LTI shares will immediately vest. If the term is not extended, with the Company willing to extend but the employee not agreeing to extend, then unvested LTI shares will be forfeited.

In any termination, the employee will be entitled to accrued statutory leave entitlements. The employee is not subject to any post-employment restraints.

Further details of the share-based remuneration are set out in Section J - Share-based Compensation.

Other key management personnel

Remuneration and other terms of employment for each of the other key management personnel and other senior managers are formalised in service agreements or letters of appointment as varied from time to time, including through annual review of the base salary, short and long-term incentives. Each contract is for an indefinite term.

The employee's total remuneration package is reviewed annually by the Remuneration Committee and Board and provides for remuneration to include:

- base salary and superannuation;
- short-term incentive bonus of up to 50% of base salary and superannuation with no retesting to recover any previous year shortfall;
- LTI shares or, the case of overseas employees, share appreciation rights of up to 35% of base salary and superannuation; and
- other benefits such as fully maintained motor vehicle and membership of relevant professional or commercial bodies.

Up to six months' notice or payment in lieu of notice is generally required in the event of termination by the employer company. The company employer 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 or forfeit six months' total remuneration for that notice period.

Termination benefits are limited to statutory leave entitlements, unless determined otherwise by the Remuneration Committee and Board. There is no payment of pro-rata short-term incentive bonus amounts for the year of termination. Unless the Board exercises its discretion to determine otherwise, upon employment termination for any reason unvested LTI shares will be forfeited. The Board may decide at its sole discretion that some or all of the shares will not lapse in the event of voluntary retirement on or after normal retirement age, bona fide redundancy, death or permanent disablement and or any other reason.

Other executive key management personnel 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.

J. Share-based Compensation

Details of the LTI share and LTI 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)	Number forfeited during year (note 4)	Value of forfeits (note 4)	Aggregate Forfeited %
Andrew Smith	2009	2014	52,547	$275,000	3,493	43,258	82%	$0	-	-	18%
	2010	2015	30,404	$182,875	-	-	-	$0	30,404	$367,888	100%
	2011	2016	27,288	$201,163	-	-	-	$201,163	-	-	-
	2012	2017	35,792	$284,325	4,677	4,677	13%	$247,053	-	-	-
	2013	2018	27,799	$303,960	-	-	-	$303,960	-	-	-
	2014	2019	27,417	$311,559				$311,559	-	-	-
Phillip Friery	2009	2014	20,526	$100,000	5,669	18,891	92%	$0			8%
	2010	2015	20,374	$122,540	-	-	-	$0	20,374	$246,525	100%
	2011	2016	17,454	$128,667	-	-	-	$128,667	-	-	-
	2012	2017	8,098	$64,334	1,058	1,058	13%	$55,898	-	-	-
	2013	2018	9,617	$105,140	-	-	-	$105,140	-	-	-
	2014	2019	9,483	$107,768	-	-	-	$107,768	-	-	-
Greg Bisset	2009	2014	16,647	$81,100	4,374	15,097	91%	$0			9%
	2010	2015	13,985	$84,121	-	-	-	$0	13,985	$169,219	100%
	2011	2016	14,749	$108,728	-	-	-	$108,728	-	-	-
	2012	2017	16,088	$127,803	2,103	2,103	13%	$111,105	-	-	-
	2013	2018	12,212	$133,525	-	-	-	$133,525	-	-	-
	2014	2019	12,044	$136,863	-	-	-	$136,863	-	-	-
Andi Luiskandl	2012	2017	5,539	$44,000	724	724	13%	$38,239	-	-	-
	2013	2018	5,848	$63,946	-	-	-	$63,946	-	-	-
	2014	2019	5,768	$65,545	-	-	-	$65,545	-	-	-
Wee Leng Goh	2010	2015	5,451	$32,760	-	-	-	$0	5,451	$65,683	100%
	2011	2016	5,536	$40,800	-	-	-	$66,684	-	-	-
	2012	2017	5,081	$39,432	723	723	14%	$52,487	-	-	-
	2013	2018	4,124	$45,075	-	-	-	$49,696	-	-	-
	2014	2019	4,607	$52,336	-	-	-	$55,538	-	-	-
Graeme Rhind	2012	2017	4,536	$35,199	593	593	13%	$47,489	-	-	-
	2013	2018	3,464	$37,862	-	-	-	$41,743	-	-	-
	2014	2019	4,011	$45,565	-	-	-	$48,353	-	-	-

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 2014 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 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 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 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.
4. Upon final testing in February 2015, from the balance of unvested shares held in trust at the end of the year, shares from grants made in 2010 were forfeited due to EPS performance conditions unlikely to be achieved.

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 70.

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 2014:

	$
Australian Firm	
Assurance services	28,733
Taxation services	53,856
Other services	38,696
Non-Australian Firms	
Taxation services	32,321
Other services	2,857
Total	156,463

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 44.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100 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 Class Order.

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

Richard Fisher
Director

Andrew Smith
Director

Dated this 17th day of February 2015

Auditor's Independence Declaration

As lead auditor for the audit of InvoCare Limited for the year ended 31 December 2014, 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
17 February 2015

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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 2014

	Notes	**2014 $'000**	2013 $'000
Revenue from continuing operations	4	**420,204**	392,186
Finished goods, consumables and funeral disbursements		**(121,614)**	(113,227)
Employee benefits expense		**(105,258)**	(97,395)
Employee related and on-cost expenses		**(24,124)**	(22,051)
Advertising and public relations expenses		**(14,912)**	(13,242)
Occupancy and facilities expenses		**(27,149)**	(26,043)
Motor vehicle expenses		**(8,819)**	(8,307)
Other expenses		**(17,246)**	(16,849)
		101,082	95,072
Depreciation, amortisation and impairment expenses	5	**(18,587)**	(14,587)
Finance costs	5	**(15,483)**	(16,820)
Interest income		**749**	658
Net gain / (loss) on undelivered prepaid contracts	15	**10,915**	1,590
Acquisition related costs		**(1,215)**	(537)
Share of net loss of associate		**(525)**	(300)
Net gain on disposal of non-current assets		**334**	2,972
Profit before income tax		**77,270**	68,048
Income tax expense	6	**(22,643)**	(19,049)
Profit from continuing activities		**54,627**	48,999
Profit for the year		**54,627**	48,999
Profit is attributable to:			
Equity holders of InvoCare Limited		**54,515**	48,869
Non-controlling interests		**112**	130
		54,627	48,999

Earnings per share for profit attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents per share)	11	**49.8**	44.7
Diluted earnings per share (cents per share)	11	**49.8**	44.7

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Notes	**2014 $'000**	2013 $'000
Profit for the year		**54,627**	48,999
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	**(82)**	2,575
Changes in foreign currency translation reserve, net of tax	26	**1,537**	4,330
Other comprehensive income for the year, net of tax		**1,455**	6,905
Total comprehensive income for the year		**56,082**	55,904
Total comprehensive income for the year is attributable to:			
Equity holders of InvoCare Limited		**55,970**	55,774
Non-controlling interests		**112**	130
		56,082	55,904

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

InvoCare Limited and Controlled Entities
Consolidated Balance Sheet
As at 31 December 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents	12	**10,488**	8,899
Trade and other receivables	13	**39,237**	38,366
Inventories	14	**22,313**	21,637
Prepaid contract funds under management	15	**32,997**	30,480
Property held for sale	18 (c)	**2,702**	-
Deferred selling costs		**1,138**	1,039
Total current assets		**108,875**	100,421
Non-current assets			
Trade and other receivables	13	**16,381**	14,298
Other financial assets		**61**	63
Property, plant and equipment	18	**308,344**	296,545
Prepaid contract funds under management	15	**367,970**	343,129
Intangible assets	19	**152,480**	148,912
Derivative financial instruments	20	**-**	1
Deferred selling costs		**8,719**	8,493
Equity accounted investments		**2,423**	4,705
Total non-current assets		**856,378**	816,146
Total assets		**965,253**	916,567
LIABILITIES			
Current liabilities			
Trade and other payables	21	**37,091**	34,563
Borrowings	22	**2**	11
Derivative financial instruments	20	**622**	1,342
Current tax liabilities		**9,364**	9,946
Prepaid contract liabilities	15	**33,847**	30,481
Deferred revenue		**7,588**	6,925
Provisions	23	**13,726**	12,732
Total current liabilities		**102,240**	96,000
Non-current liabilities			
Trade and other payables	21	**260**	1,124
Borrowings	22	**229,350**	223,956
Derivative financial instruments	20	**5,284**	4,437
Deferred tax liabilities	6 (d)	**32,275**	28,755
Prepaid contract liabilities	15	**359,994**	346,044
Deferred revenue		**45,482**	43,527
Provisions	23	**2,409**	2,027
Total non-current liabilities		**675,054**	649,870
Total liabilities		**777,294**	745,870
Net assets		**187,959**	170,697
EQUITY			
Contributed equity	25	**131,682**	132,393
Reserves	26	**6,756**	4,423
Retained profits	26	**48,367**	32,636
Parent entity interest		**186,805**	169,452
Non-controlling interests	27	**1,154**	1,245
Total equity		**187,959**	170,697

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 2014

	Notes	Attributable to Owners of InvoCare Limited					
		Contri-buted equity $'000	Reserves $'000	Retained earnings $'000	Total	Non con-trolling interest $'000	Total equity $'000
Balance at 1 January 2014		**132,393**	**4,423**	**32,636**	**169,452**	**1,245**	**170,697**
Total comprehensive income for the year		**-**	**1,455**	**54,515**	**55,970**	**112**	**56,082**
Transactions with owners in their capacity as owners:							
Dividends paid	10	**-**	**-**	**(38,784)**	**(38,784)**	**(203)**	**(38,987)**
Deferred employee share plan shares vesting during the year	26	**457**	**(457)**	**-**	**-**	**-**	**-**
Acquisition of shares by the InvoCare Deferred Share Plan Trust	25	**(1,168)**	**-**	**-**	**(1,168)**	**-**	**(1,168)**
Transfer of shares from the deferred plan to the InvoCare Exempt Share Plan Trust	25	**-**	**-**	**-**	**-**	**-**	**-**
Employee shares – value of services	26	**-**	**1,335**	**-**	**1,335**	**-**	**1,335**
Balance at 31 December 2014		**131,682**	**6,756**	**48,367**	**186,805**	**1,154**	**187,959**
Balance at 1 January 2013		132,687	(3,120)	21,173	150,740	1,151	151,891
Total comprehensive income for the year		-	6,905	48,869	55,774	130	55,904
Transactions with owners in their capacity as owners:							
Dividends paid	10	-	-	(37,406)	(37,406)	(36)	(37,442)
Deferred employee share plan shares vesting during the year	26	388	(388)	-	-	-	-
Acquisition of shares by the InvoCare Deferred Share Plan Trust	25	(842)	-	-	(842)	-	(842)
Transfer of shares from the deferred plan to the InvoCare Exempt Share Plan Trust	25	160	-	-	160	-	160
Employee shares – value of services	26	-	1,026	-	1,026	-	1,026
Balance at 31 December 2013		132,393	4,423	32,636	169,452	1,245	170,697

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 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers (including GST)		**466,197**	434,007
Payments to suppliers and employees (including GST)		**(367,317)**	(336,529)
Other revenue		**7,904**	6,833
		106,784	104,311
Interest received		**132**	77
Finance costs		**(14,981)**	(16,316)
Income tax paid		**(20,182)**	(15,856)
Net cash inflow from operating activities	31	**71,753**	72,216
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1,003**	8,025
Purchase of subsidiaries and other businesses including acquisition costs, net of cash acquired		**(6,738)**	(8,178)
Purchase of interest in associates		**-**	(5,005)
Purchase of property, plant, equipment and intangibles		**(26,665)**	(19,264)
Net cash outflow from investing activities		**(32,400)**	(24,422)
Cash flows from financing activities			
Payment for shares acquired by InvoCare Deferred Employee Share Plan Trust		**(1,168)**	(842)
Proceeds from borrowings		**42,250**	155,328
Repayment of borrowings		**(40,000)**	(162,162)
Payment of dividends – InvoCare Limited shareholders		**(38,784)**	(37,406)
Dividends paid to non-controlling interests in subsidiaries		**(203)**	(36)
Net cash outflow from financing activities		**(37,905)**	(45,118)
Net increase in cash and cash equivalents		**1,448**	2,676
Cash and cash equivalents at the beginning of the year		**8,899**	6,081
Effects of exchange rate changes on cash and cash equivalents		**141**	142
Cash and cash equivalents at the end of the year	12	**10,488**	8,899

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

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the consolidated financial statements and notes of InvoCare Limited comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(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 AIFRS 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 2014 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. This trust is 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-acquistion 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 recognised 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 as a separate component of equity.

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 taken to shareholders' equity. 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 fifteen 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 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.

InvoCare Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, InvoCare Limited, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, InvoCare Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in Notes 34(e) and 35(d).

(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 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 12 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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(j)).

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 12 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 or 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(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;

Note 1: Summary of Significant Accounting Policies continued

(t) Employee benefits continued

- 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. 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.

(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 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 included 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, is classified 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 Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to rounding of amounts in the financial report. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 1: Summary of Significant Accounting Policies continued

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2014 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

AASB 15 Revenue from Contracts with Customers establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is not applicable until 1 January 2017 but is available for early adoption. The new standard may have relevance to the Group's accounting practices surrounding the revenue recognition of some sale transactions in the Group's cemeteries and crematoria. The exact nature and quantum of any impacts remains as yet un-determined and is currently being assessed. The standard is not expected to have a significant impact on other aspects of the Group's revenue.

(ii) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 , AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures (effective for annual reporting periods beginning on or after 1 January 2015)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The new standard is likely to have no material impact on the Group.

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 Risk Committee and Audit Committee, which operate under policies approved by the Board, are 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:

	2014 $'000	2013 $'000
Financial assets		
Cash and cash equivalents	**10,488**	8,899
Trade and other receivables *	**47,183**	47,003
Prepaid contract funds under management	**400,967**	373,609
Other financial assets	**61**	63
	458,699	429,574
Financial liabilities		
Trade and other payables	**37,351**	35,687
Borrowings	**229,352**	223,967
Derivative financial instruments	**5,906**	5,778
	272,609	265,432

* excluding prepayments and security deposits

(a) Market risk

(i) Cash flow 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. It is the policy of the Group to keep at least 75% of debt on fixed interest rates over the next twelve months by entering into interest rate swap contracts. 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 5.8% (2013: 6.4%) inclusive of swaps and margins but excluding establishment fees.

At balance date, interest rate swaps for 76% (2013: 80%) of borrowings were in place. Of these interest rate swaps 15% (2013: 14%) were denominated in New Zealand dollar fixed interest instruments, with the balance denominated in Australian dollars. As at 31 December 2014 the weighted average fixed interest rate payable on the interest rate swaps is 4.43% (2013: 4.94%) and the weighted average variable rate receivable as at 31 December 2014 is 2.90% (2013: 2.64%).

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

	31 December 2014		31 December 2013	
	Weighted average interest rate	Balance $'000	Weighted average interest rate	Balance $'000
Bank loans	**5.80%**	**232,658**	6.39%	225,228
Interest rate swaps (notional principal)	**4.43%**	**175,808**	4.94%	179,318
Net exposure to cash flow interest rate risk		**56,850**		45,910

Note 2: Financial Risk Management continued

(a) Market risk continued

(i) Cash flow 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:

	2014 $'000	2013 $'000
Less than one year	**55,808**	64,500
One to two years	**60,000**	54,818
Two to three years	**60,000**	60,000
Three to four years	**28,675**	60,000
	204,483	239,318

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 (2013: 100 basis points) and 50 basis points in Singapore (2013: 50 basis points) in the interest rate would result in additional interest expense after tax of $449,000 (2013: $259,000). A decrease of 100 basis points in Australian and New Zealand rates (2013: 100 basis points) and 50 basis points in Singapore (2013: 50 basis points) in the interest rate would result in an after tax gain of $118,000 (2013: $119,000). 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 2014 and the movements in the fair value of these instruments have been quarantined in equity. If interest rates decline by 100 basis points (2013: 100 basis points) a further $1,417,000 (2013: $1,404,000) 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 $1,086,000 (2013: $1,264,000) net of tax.

The overall impact on the Group has been summarised on page 65.

The Group's cash and cash equivalents held in Australia are interest bearing. At 31 December 2014 the weighted average interest rate was 0.91% (2013: 1.20%). If interest rates changed by 100 basis points (2013: 100 basis points) the Group's after tax result would increase or decrease by $53,000 (2013: $38,000).

(ii) Foreign exchange risk

The Group rarely undertakes 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. Where natural hedges do not exist, currency swap instruments are used to hedge at least 75% of the net recognised assets and liabilities which are denominated in foreign currencies.

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

	2014 $'000		2013 $'000	
	New Zealand Dollars	Singapore Dollars	New Zealand Dollars	Singapore Dollars
Borrowings	**35,844**	**30,454**	33,091	29,144
Derivatives	**429**	**-**	1	-

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 2014. 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 revenue and margins are 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 2014 and 31 December 2013 the following changes in investment returns are reasonably probable.

	31 December 2014		31 December 2013	
	Increase	**Decrease**	Increase	Decrease
Asset class				
Equities (plus or minus 10%)	**4,010**	**(4,010)**	4,857	(4,857)
Property (plus or minus 3%)	**1,925**	**(1,925)**	2,578	(2,578)
Cash and fixed interest (no price risk)	**-**	**-**	-	-
	5,935	**(5,935)**	7,435	(7,435)

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:

	2014 %	2013 %
Equities	**10**	13
Property	**16**	23
Cash and fixed interest	**74**	64

Approximately 79% 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 $2,230,000 (2013: $2,608,000). As at 31 December 2014, receivables with a nominal value of $3,261,000 (2013: $3,515,000) 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 2014, trade receivables of $7,928,000 (2013: $7,341,000) 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 aging of receivables past due but not impaired follows:

	2014 $'000	2013 $'000
One to three months overdue	**4,479**	4,260
Over three months overdue	**3,449**	3,081

(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

	2014 $'000	2013 $'000
Finance facilities available		
Unrestricted access was available at balance date to the following lines of credit:		
Total facilities		
- unsecured loan facility expiring in one to two years	**-**	-
- unsecured loan facility expiring in two to five years	**255,000**	255,000
- working capital facility expiring within one year	**6,910**	6,838
	261,910	261,838
Used at balance date		
- unsecured loan facility	**230,304**	225,228
- working capital facility	**1,156**	937
	231,460	226,165
Unused at balance date		
- unsecured loan facility	**24,696**	29,772
- working capital facility	**5,754**	5,901
	30,450	35,673

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

31 December 2014	Less than one year $'000	Two to three Years $'000	More than three Years $'000	Total $'000
Trade and other payables	**37,091**	**178**	**82**	**37,351**
Borrowings	**-**	**70,304**	**160,000**	**230,304**
Derivatives	**622**	**4,864**	**420**	**5,906**

31 December 2013	Less than one year $'000	Two to three Years $'000	More than three Years $'000	Total $'000
Trade and other payables	34,563	969	155	35,687
Borrowings	-	77,400	147,828	225,228
Derivatives	1,342	3,833	603	5,778

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 $255 million, $85 million expiring in September 2016 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 2014. 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 2014, basic EPS was 49.8 cents (2013: 44.7 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 43.1 cents (2013: 38.9 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 21% (2013: 22%) 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 $7.03 or 703% (2013: $6.27 or 627%) up to 31 December 2014.
- 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 2014 dividends represents a payout ratio of 87% (2013: 89%) of operating earnings after tax.
- Monitoring participation in the Dividend Reinvestment Plan: Up to 25% 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. At 31 December 2014 the proportion of debt hedged was 76% (2013: 80%). The hedge contracts extend to the second half of 2018.
- Managing refinancing risk: The Groups borrowing facilities were renewed during 2013 and have been split into two tranches across four banks in order to reduce refinancing risk. The second tranche originally due to expire in September 2014 was refinanced in December 2013 along with the tranche due to expire in September 2015 and now expire in December 2018. The tranche expiring in September 2016 is expected to be re-negotiated during 2015.

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 2014		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	**10,488**	**(53)**	**-**	**53**	**-**	**-**	**-**	**-**	**1**
Accounts receivable	**47,183**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Prepaid contract funds under management	**400,967**	**(1,738)**	**-**	**1,738**	**-**	**-**	**-**	**-**	**-**
Other financial assets	**61**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities									
Trade and other payables	**37,351**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Borrowings	**229,352**	**(118)**	**-**	**449**	**-**	**(108)**	**2,536**	**88**	**(2,344)**
Derivatives	**5,906**	**-**	**1,417**	**-**	**(1,086)**	**-**	**(2,536)**	**-**	**2,344**
Total increase / (decrease)		**(1,909)**	**1,417**	**2,240**	**(1,086)**	**(108)**	**-**	**88**	**1**

31 December 2013		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	8,899	(38)	-	38	-	-	1	-	3
Accounts receivable	47,003	-	-	-	-	-	-	-	-
Prepaid contract funds under management	373,609	(1,444)	-	1,444	-	-	-	-	-
Other financial assets	63	-	-	-	-	-	-	-	-
Financial liabilities									
Trade and other payables	35,687	-	-	-	-	-	-	-	-
Borrowings	223,967	(119)	-	259	-	(91)	3,133	74	(2,906)
Derivatives	5,778	-	1,404	-	(1,264)	-	(3,133)	-	2,906
Total increase / (decrease)		(1,601)	1,404	1,741	(1,264)	(91)	1	74	3

The sensitivity analysis has been completed by applying the range values to the actual balances that existed at all points throughout the year.

(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.

As of 1 January 2009, the Group adopted the amendment to AASB7 *Financial Instruments: Disclosures* which requires the disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(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 $7,000 (2013: $15,000). Similarly, a 10% decrease in the discount rate results in an increase in contingent consideration of $7,000 (2013: $15,000).

Note 2: Financial Risk Management continued

(f) Fair value estimation continued

	2014 $'000	2013 $'000
Level 1		
Prepaid contract funds under management	**400,967**	373,609
Level 2		
Derivatives financial instruments	**(5,906)**	(5,778)
Level 3		
Contingent consideration	**(1,912)**	(2,437)

No financial instruments or derivatives are held for trading.

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 2014 and 31 December 2013 is outlined below.

	Australian Operations	Singapore Operations	New Zealand Operations	Other Operations	Consolidated
	2014 $'000	**2014 $'000**	**2014 $'000**	**2014 $'000**	**2014 $'000**
Revenue from external customers	**356,056**	**13,820**	**42,986**	**149**	**413,011**
Other revenue (excluding interest income)	**6,704**	**307**	**138**	**44**	**7,193**
Operating expenses	**(277,023)**	**(7,420)**	**(34,437)**	**(242)**	**(319,122)**
Operating EBITDA	**85,737**	**6,707**	**8,687**	**(49)**	**101,082**
Depreciation and amortisation	**(16,560)**	**(576)**	**(2,027)**	**(24)**	**(19,187)**
Finance costs	**(12,916)**	**(634)**	**(1,933)**	**-**	**(15,483)**
Interest income	**701**	**-**	**48**	**-**	**749**
Share of net loss of associate	**(525)**	**-**	**-**	**-**	**(525)**
Income tax expense	**(20,887)**	**(793)**	**(961)**	**(2)**	**(22,643)**
Total goodwill	**85,781**	**13,495**	**44,596**	**1,518**	**145,390**
Total assets	**849,099**	**40,838**	**72,312**	**3,004**	**965,253**
Total liabilities	**701,434**	**32,993**	**42,810**	**57**	**777,294**

	Australian Operations	Singapore Operations	New Zealand Operations	Other Operations	Consolidated
	2013 $'000	**2013 $'000**	**2013 $'000**	**2013 $'000**	**2013 $'000**
Revenue from external customers	338,065	12,982	34,177	128	385,352
Other revenue (excluding interest income)	6,397	267	130	40	6,834
Operating expenses	(262,165)	(7,018)	(27,771)	(160)	(297,114)
Operating EBITDA	82,297	6,231	6,536	8	95,072
Depreciation and amortisation	(15,578)	(512)	(1,680)	-	(17,770)
Finance costs	(14,442)	(748)	(1,630)	-	(16,820)
Interest income	628	-	30	-	658
Share of net loss of associate	(300)	-	-	-	(300)
Income tax expense	(18,308)	(569)	(174)	2	(19,049)
Total goodwill	84,925	12,915	42,870	-	140,710
Total assets	812,542	37,331	66,640	54	916,567
Total liabilities	674,249	31,701	39,885	35	745,870

Operating EBITDA of $101,082,000 (2013: $95,072,000) 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.

Note 4: Revenue from Continuing Operations

	2014 $'000	2013 $'000
Sales revenue		
Sale of goods	**166,127**	154,213
Services revenue	**246,884**	231,139
	413,011	385,352
Other revenue		
Rent	**270**	327
Administration fees	**5,245**	5,017
Sundry revenue	**1,678**	1,490
	7,193	6,834
Total revenue from continuing operations	**420,204**	392,186

Note 5: Expenses

	2014 $'000	2013 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**4,243**	4,094
Property, plant and equipment	**12,712**	11,613
Total depreciation	**16,955**	15,707
Amortisation of non-current assets		
Cemetery land	**344**	359
Leasehold land and buildings	**176**	180
Leasehold improvements	**443**	353
Brand names	**1,269**	1,171
Total amortisation	**2,232**	2,063
Total depreciation and amortisation	**19,187**	17,770
Impairment of other assets		
Cemetery land impairment reversal	**(2,500)**	(4,900)
Cemetery land impairment charge	**-**	1,200
Leasehold land impairment reversal	**(100)**	-
Leasehold land impairment charge	**-**	407
Financial assets impairment charge	**2,000**	-
Goodwill	**-**	110
Total depreciation, amortisation and impairment	**18,587**	14,587
Finance costs		
Interest paid and payable	**13,426**	14,727
Other finance costs	**2,057**	2,093
Total financing costs	**15,483**	16,820
Impairment losses – financial assets		
Trade receivables	**470**	729
Rental expense		
Operating lease rental – minimum lease payments	**11,116**	11,089
Defined contribution superannuation expense	**7,514**	7,092

Note 6: Income Tax

(a) Income tax expense

	2014 $'000	2013 $'000
Current tax	**19,993**	20,339
Deferred tax	**2,774**	(1,050)
Under / (over) provided in prior years	**(124)**	(240)
Income tax expense attributable to continuing operations	**22,643**	19,049

Note 6: Income Tax continued

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

	2014 $'000	2013 $'000
Prima facie tax at 30% (2013: 30%) on profit before tax	**23,181**	20,414
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	**(164)**	(581)
Impact of the eliminations of translation gains / (losses) on intercompany balances in foreign currencies	**131**	406
Impact of the reassessment of the appropriate depreciation rates applicable to New Zealand building assets	**-**	(583)
Acquisition costs not deductible	**282**	132
Impact of share of the net loss of an associate	**158**	90
Revenue losses not recognised	**168**	-
Other items (net)	**(61)**	260
	23,695	20,138
Difference in overseas tax rates	**(928)**	(849)
Under / (over) provision in prior years	**(124)**	(240)
Income tax expense	**22,643**	19,049

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

	2014 $'000	2013 $'000
Cash flow hedges	**48**	772
Foreign currency translation reserve	**359**	-

(d) Deferred tax (asset)/liability

	2014 $'000	2013 $'000
The deferred tax (asset)/liability balances comprised temporary differences attributable to:		
Amounts recognised in profit and loss:		
Cemetery land	**27,014**	25,191
Property, plant and equipment	**5,509**	7,196
Deferred selling costs	**2,957**	2,859
Prepayments and other	**659**	173
Brand names	**2,046**	1,761
Prepaid contracts	**2,482**	(149)
Provisions	**(4,528)**	(4,547)
Receivables	**(1,575)**	(1,275)
Accruals and other	**(526)**	(721)
Amounts recognised directly in equity:		
Cash flow hedge reserve	**(1,763)**	(1,733)
	32,275	28,755
The net movement in the deferred tax (asset) / liability is as follows:		
Balance at the beginning of the year	**28,755**	28,502
Net charge (credit) to income statement – current period	**2,774**	(1,050)
Net charge (credit) to income statement – prior periods	**643**	15
Amounts recognised due to business combinations net of businesses subsequently sold	**101**	424
Amounts recognised directly in equity	**48**	772
Effect of movements in exchange rates	**(46)**	92
Balance at the end of the year	**32,275**	28,755
Deferred tax liabilities/(assets) to be settled within 12 months	**(4,404)**	(7,551)
Deferred tax liabilities/(assets) to be settled after 12 months	**36,679**	36,306
	32,275	28,755

(e) Tax losses

The Group has unutilised Australian capital losses with a potential benefit of $ Nil (2013: $164,000) at a tax rate of 30% (2013: 30%). The Group has unutilised revenue losses of $168,000 in foreign jurisdictions.

Note 7: Key Management Personnel Disclosures

(a) Key management personnel compensation

	2014 **$**	2013 $
Short-term employee benefits	**3,697,628**	3,381,738
Post-employment benefits	**153,876**	162,644
Other long term benefits	**54,160**	37,704
Share-based payments	**679,013**	551,798
	4,584,677	4,133,884

Detailed remuneration disclosures are provided in the Remuneration Report on pages 28 to 42.

(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 on pages 28 to 42.

The Company has not provided any options over unissued shares as remuneration during the 2014 or 2013 financial years.

(ii) Holdings of share 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	11,580	-	376	11,956
Christine Clifton	112,961	-	-	112,961
Roger Penman	16,665	-	282	16,947
Aliza Knox	5,172	-	167	5,339
Richard Davis	606,607	-	(20,000)	586,607
Executive Directors				
Andrew Smith (note 1)	237,357	27,417	(9,286)	255,488
Other key management personnel				
Phillip Friery (notes 1)	81,385	9,483	(6,635)	84,233
Greg Bisset (notes 1)	72,525	12,044	(1,550)	83,019
Andi Luiskandl	11,387	5,768	-	17,155
Wee Leng Goh (note 2)	20,192	4,608	(723)	24,077
Graeme Rhind (note 2)	8,000	4,011	(593)	11,418

1. Upon final vesting test in February 2015, from the balance of shares held at the end of the year as shown in the above table, shares from grants made in 2009 were forfeited due to EPS performance conditions not being achieved. Andrew Smith forfeited 30,404 shares, Phillip Friery forfeited 20,374 shares and Greg Bisset forfeited 13,985 shares.
2. These grants are share appreciation rights.

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 2014 or 2013.

Note 8: Share-based Payments

To align executive and shareholder interests, key management and other senior managers may be offered shares as long term incentives under the InvoCare Deferred Employee Share Plan which was established in 2007.

Performance hurdles apply to certain grants to senior managers which are outlined in detail in the Remuneration Report. Shading in provisions apply with partial vesting when compound earnings per share growth is less than the target.

In non-Australian jurisdictions the direct ownership of InvoCare Limited shares present complex legal and taxation challenges in an employee share plan environment. In these cases senior non-Australian employees are granted share appreciation rights with the same vesting and performance conditions as the Australia Deferred Employee share plan.

Total expenses, excluding related on-costs, arising from share-based payment transactions recognised during the period as part of employee benefits expense were as follows:

	2014 $'000	2013 $'000
Long-term incentive bonus share expense	**1,335**	1,026

Note 8: Share-based Payments continued

Details of unvested grants and other movements in the deferred employee share plan follow:

Grant date	Vesting date	Purchase price per share $	Balance at the start of the year $'000	Granted during the year $'000	Vested during the year $'000	Forfeited during the year $'000	Balance at the end of the year $'000
1 January 2009	25 February 2011	4.87	12	-	(7)	(5)	-
	25 February 2012	4.87	87	-	(50)	(37)	-
	25 February 2013	4.87	155	-	(89)	(66)	-
1 January 2010	25 February 2012	6.01	254	-	-	-	254
	25 February 2013	6.01	254	-	-	-	254
	25 February 2014	6.01	254	-	-	-	254
1 March 2010	25 February 2014	6.01	49	-	(49)	-	
1 January 2011	25 February 2013	7.37	305	-	-	-	305
	25 February 2014	7.37	305	-	-	-	305
	25 February 2015	7.37	305	-	-	-	305
1 March 2011	25 February 2014	7.37	59	-	(59)	-	-
	25 February 2015	7.37	59	-	-	(5)	54
1 July 2011	25 February 2013	7.37	7	-	-	-	7
	25 February 2014	7.37	7	-	-	-	7
	25 February 2015	7.37	7	-	-	-	7
1 January 2012	25 February 2014	7.94	368	-	(144)	-	224
	25 February 2015	7.94	368	-	-	-	368
	25 February 2016	7.94	368	-	-	-	368
1 March 2012	25 February 2014	7.94	58	-	(58)	-	-
	25 February 2015	7.94	58	-	-	(5)	53
	25 February 2016	7.94	58	-	-	(5)	53
1 January 2013	25 February 2015	10.93	413	-	-	(3)	410
	25 February 2016	10.93	413	-	-	(3)	410
	25 February 2017	10.93	413	-	-	(2)	411
1 March 2013	25 February 2015	10.93	73	-	-	-	73
	25 February 2016	10.93	73	-	-	-	73
	25 February 2017	10.93	73	-	-	-	73
1 January 2014	25 February 2016	11.36	-	426	-	(7)	419
	25 February 2017	11.36	-	426	-	(7)	419
	25 February 2018	11.36	-	427	-	(7)	420
1 March 2014	25 February 2016	11.36	-	75	-	(3)	72
	25 February 2017	11.36	-	75	-	(3)	72
	25 February 2018	11.36	-	76	-	(3)	73
			4,855	1,505	(456)	(161)	5,743

Note: The data in this table has been calculated in whole dollars and presented in thousands and as a consequence some totals and movements cannot be computed from the table as presented.

InvoCare Limited has no options over unissued shares granted to executive management outstanding at balance date.

Note 8: Share-based Payments continued

Details of unvested grants and other movements in share appreciation rights follow:

Grant date	Vesting date	Purchase price per share $	Balance at the start of the year $'000	Granted during the year $'000	Vested during the year $'000	Increase during the year $'000	Balance at the end of the year $'000
22 February 2010	22 February 2012	6.01	20	-	-	2	22
	22 February 2013	6.01	20	-	-	2	22
	22 February 2014	6.01	20	-	-	2	22
24 February 2011	24 February 2013	7.37	20	-	-	2	22
	24 February 2014	7.37	20	-	-	2	22
	24 February 2015	7.37	20	-	-	2	22
21 February 2012	21 February 2014	7.76	19	-	(10)	1	10
	21 February 2015	7.76	19	-	-	2	21
	21 February 2016	7.76	19	-	-	2	21
1 January 2012	25 February 2014	7.76	33	-	(14)	5	24
	25 February 2015	7.76	33	-	-	5	38
	25 February 2016	7.76	33	-	-	5	38
1 March 2012	25 February 1014	7.76	6	-	(6)	-	-
	25 February 2015	7.76	6	-	-	-	6
	25 February 2016	7.76	6	-	-	-	6
1 January 2013	21 February 2015	10.93	26	-	-	2	28
	21 February 2016	10.93	26	-	-	2	28
	21 February 2017	10.93	26	-	-	2	28
21 February 2013	21 February 2015	10.93	15	-	-	2	17
	21 February 2016	10.93	15	-	-	2	17
	21 February 2017	10.93	15	-	-	2	17
1 March 2013	21 February 2015	10.93	6	-	-	1	7
	21 February 2016	10.93	6	-	-	1	7
	21 February 2017	10.93	6	-	-	1	7
1 January 2014	25 February 2016	11.36	-	30	-	2	32
	25 February 2017	11.36	-	30	-	2	32
	25 February 2018	11.36	-	30	-	2	32
25 February 2014	25 February 2016	11.36	-	17	-	1	18
	25 February 2017	11.36	-	17	-	1	18
	25 February 2018	11.36	-	17	-	1	18
1 March 2014	25 February 2016	11.36	-	7	-	-	7
	25 February 2017	11.36	-	7	-	-	7
	25 February 2018	11.36	-	7	-	-	7
			435	162	(30)	56	623

Note: The data in this table has been calculated in whole dollars and presented in thousands and as a consequence some totals and movements cannot be computed from the table as presented.

The plan rules allow, in instances where full vesting does not occur, an additional year to satisfy the vesting conditions.

Note 9: Remuneration of Auditors

	2014 $	2013 $
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	**310,630**	408,630
PricewaterhouseCoopers – non-Australian firm		
Audit and review of financial reports	**9,355**	8,741
Non-PricewaterhouseCoopers – Singaporean firm		
Audit and review of financial reports	**28,446**	28,720
Total remuneration for audit services	**348,431**	446,091
(b) Non-audit services		
PricewaterhouseCoopers – Australian firm		
Assurance services	**28,733**	26,000
Accounting advisory services	**-**	45,122
Taxation services	**53,856**	73,000
Other Services	**38,696**	-
PricewaterhouseCoopers – non-Australian firms		
Taxation services	**32,321**	58,599
Other services	**2,857**	12,623
Non-PricewaterhouseCoopers – Singaporean firm		
Other services	**11,896**	12,011
Total remuneration for non-audit services	**168,359**	227,355

For 2013, included in $408,630 for audit and review of financial reports is $80,000 in relation to the scope changes for 2012 audit.

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

	2014 $'000	2013 $'000
Dividends paid		
Final ordinary dividend for the year ended 31 December 2013 of 19.5 cents (2012: 19.0 cents) per fully paid share paid on 4 April 2014 (2012: 5 April 2013), fully franked based on tax paid at 30% (2012: 30%)	**21,455**	20,901
Interim ordinary dividend for the year ended 31 December 2014 of 15.75 cents (2013: 15.0 cents) per share paid on 3 October 2014 (2013: 4 October 2013), fully franked based on tax paid at 30% (2013: 30%)	**17,329**	16,505
Dividends paid to members of InvoCare Limited	**38,784**	37,406
On 16 December 2014 (2013: 24 July 2013) dividend totalling 25.29 cents (2013: 4.46 cents) per fully paid share, fully franked based on tax paid at 30%, was paid to non-controlling interests.	**203**	36
	38,987	37,442
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 20.75 cents (2013: 19.5 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 02 April 2015 out of 2014 profits, but not recognised as a liability at year end is:	**22,831**	21,456
Franking credit balance		
The amounts of franking credits available for subsequent financial years are:		
Franking account balance at the end of the financial year	**23,737**	23,435
Franking credits that will arise from the payment of income tax payable at the end of the financial year	**7,974**	8,346
Reduction in franking account resulting from payment of proposed final dividend of 20.75 cents (2013: 19.5 cents)	**(9,785)**	(9,195)
	21,926	22,586

Note 11: Earnings per Share

	2014 $'000	2013 $'000
Reconciliation of Earnings to Profit and Loss		
Profit from ordinary activities after income tax	**54,627**	48,999
Less profit attributable to non-controlling interests	**(112)**	(130)
Profit used to calculate basic and diluted EPS	**54,515**	48,869

	2014 Number	2013 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	**109,375,375**	109,394,543
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**109,375,375**	109,394,543

	2014 cents	2013 cents
Earnings per share for profit attributable to the ordinary equity holders of the Company		
Basic earnings per share (cents per share)	**49.8**	44.7
Diluted earnings per share (cents per share)	**49.8**	44.7

Note 12: Cash and Cash Equivalents

	2014 $'000	2013 $'000
Cash on hand	**79**	82
Cash at bank	**10,409**	8,817
	10,488	8,899
Cash at bank attracts floating interest rate of 1.25% (2013: between 1.25% and 2.0%)		
Reconciliation to cash at the end of the year: The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:		
Balances as above	**10,488**	8,899
Balances per the statement of cash flows	**10,488**	8,899

Note 13: Trade and Other Receivables

	2014 $'000	2013 $'000
Current		
Trade receivables	**34,407**	34,131
Provision for doubtful receivables	**(2,214)**	(2,571)
Prepayments	**6,328**	5,297
Other receivables	**716**	1,509
	39,237	38,366
Non-current		
Trade receivables	**15,006**	13,571
Provision for doubtful receivables	**(16)**	(37)
Security deposits	**298**	364
Other receivables	**1,093**	400
	16,381	14,298

(a) Impaired receivables

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

	2014 $'000	2013 $'000
As at 1 January	**2,608**	2,631
Provision for impairment recognised during the year	**470**	729
Receivables written off as uncollectible	**(848)**	(752)
As at 31 December	**2,230**	2,608

Note 14: Inventories

	2014 $'000	2013 $'000
Current		
Finished goods – at cost	**21,522**	20,104
Work in progress – at cost	**791**	1,533
	22,313	21,637

Note 15: Prepaid Contracts

(a) Income statement impact of undelivered prepaid contracts

	2014 $'000	2013 $'000
Gain on prepaid contract funds under management	**24,832**	20,622
Change in provision for prepaid contract liabilities	**(13,917)**	(19,032)
Net gain / (loss) on undelivered prepaid contracts	**10,915**	1,590

(b) Movements in prepaid contract funds under management

	2014 $'000	2013 $'000
Balance at the beginning of the year	**373,609**	350,905
Sale of new prepaid contracts	**33,326**	31,951
Initial recognition of contracts paid by instalment	**3,241**	2,941
Redemption of prepaid contract funds following service delivery	**(35,389)**	(32,810)
Increase due to business combinations	**1,348**	-
Increase in fair value of contract funds under management	**24,832**	20,622
Balance at the end of the year	**400,967**	373,609

(c) Movements in prepaid contract liabilities

	2014 $'000	2013 $'000
Balance at the beginning of the year	**376,525**	355,090
Sale of new prepaid contracts	**33,990**	31,951
Initial recognition of contracts paid by instalment	**3,241**	2,941
Decrease following delivery of services	**(35,180)**	(32,489)
Increase due to business combinations	**1,348**	-
Increase due to re-evaluation of delivery obligation	**13,917**	19,032
Balance at the end of the year	**393,841**	376,525

(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, 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 $ 6,488,000 (2013: $6,235,000). 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 $24.8 million in prepaid contract funds under management (2013: $20.6 million) was greater than the non-cash growth due to selling price increases of $13.9 million in the liability for future service delivery obligations (2013: $19.0 million).

Note 16: Interests in Other Entities: Subsidiaries

(a) Interest in subsidiaries

Set out below are the Group's principal trading subsidiaries at 31 December 2014. 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 2014 %	2013 %
InvoCare Australia Pty Limited	Australia	Funeral services provider	**100**	100
Bledisloe Australia Pty Ltd	Australia	Funeral services provider	**100**	100
Bledisloe New Zealand Limited	New Zealand	Funeral services provider	**100**	100
Singapore Casket Company (Private) Limited	Singapore	Funeral services provider	**100**	100

InvoCare Australia 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.

(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.

Note 16: Interests in Other Entities: Subsidiaries continued

(c) Complete list of subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of InvoCare Limited and the following controlled entities in accordance with the accounting policy in Note 1(b).

Name of entity	Country of incorporation	Equity Holding 2014 %	Equity Holding 2013 %
InvoCare Australia Pty Limited	Australia	**100**	100
New South Wales Cremation Company Pty Limited	Australia	**100**	100
LifeArt Australasia Pty Limited	Australia	**100**	100
Macquarie Memorial Park Pty Limited	Australia	**83**	83
Oakwood Funerals Pty Limited	Australia	**100**	100
Dignity Pre-Arranged Funerals Pty Limited	Australia	**100**	100
Memorial Guardian Plan Pty Limited	Australia	**100**	100
Pine Grove Forest Lawn Funeral Benefit Company Pty Limited	Australia	**100**	100
Kitleaf Pty Limited	Australia	**100**	100
The Australian Cremation Society Pty Limited	Australia	**100**	100
Metropolitan Burial and Cremation Society Funeral Contribution Fund Pty Limited	Australia	**100**	100
Labor Funerals Contribution Fund Pty Limited	Australia	**100**	100
IVC Custodians Pty Limited	Australia	**100**	100
Bledisloe Group Holdings Pty Ltd	Australia	**100**	100
Bledisloe Finance Pty Ltd (Struck off in 2014)	Australia	**-**	100
Bledisloe Holdings Pty. Ltd. (Struck off in 2014)	Australia	**-**	100
Bledone Pty Ltd	Australia	**100**	100
Bledtwo Pty Ltd (Struck off in 2014)	Australia	**-**	100
Bledisloe Australia Pty Ltd	Australia	**100**	100
A.C.N. 001 068 373 Pty Ltd (Struck off in 2014)	Australia	**-**	100
A.C.N. 000 146 261 Pty Ltd (Struck off in 2014)	Australia	**-**	100
A.C.N. 000 963 299 Pty Ltd (Struck off in 2014)	Australia	**-**	100
F Tighe & Co Pty Ltd (Struck off in 2014)	Australia	**-**	100
Crematorium Chapel Funerals of Australasia Pty Ltd (Struck off in 2014)	Australia	**-**	100
William Lee & Sons Pty Ltd (Struck off in 2014)	Australia	**-**	100
Dylhost Pty Ltd (Struck off in 2014)	Australia	**-**	100
Australian Funerals Pty Limited	Australia	**100**	100
Metropolitan Funeral Services Pty. Ltd.	Australia	**100**	100
Sydney Cremation Services Pty Ltd (Struck off in 2014)	Australia	**-**	100
Cemetery & Crematorium Management Services Pty Ltd (Struck off in 2014)	Australia	**-**	100
Cemetery & Crematorium Finance Trust (dissolved)	Australia	**-**	100
Nationwide Care Services Pty Ltd (Struck off in 2014)	Australia	**-**	100
South-East Asia & Australasian Services Pty Ltd (Struck off in 2014)	Australia	**-**	100
Tuckers Funeral & Bereavement Services Pty Ltd	Australia	**100**	100
Geelong Mortuary Transfer Services Pty Ltd	Australia	**100**	100
IVC Employee Share Plan Managers Pty Ltd	Australia	**100**	100
InvoCare Hong Kong Limited	Hong Kong SAR	**100**	100
InvoCare Consulting Services (Beijing) Co., Ltd	People's Republic of China	**100**	100
InvoCare (Singapore) Pty Limited	Australia	**100**	100
Singapore Casket Company (Private) Limited	Singapore	**100**	100
Casket Palace Pte. Ltd.	Singapore	**100**	100
Simplicity Casket Private Limited	Singapore	**100**	100
Casket Company Embalming and Funeral Services Pte. Ltd	Singapore	**100**	100
Lavender Flora Pte. Ltd.	Singapore	**100**	100
Simplicity Flora Pte. Ltd.	Singapore	**100**	100
SCC Care Services Pte. Ltd. (formerly SCC Funeral Supplies Pte. Ltd.)	Singapore	**100**	100
InvoCare New Zealand Limited	New Zealand	**100**	100
Bledisloe New Zealand Limited	New Zealand	**100**	100
InvoCare USA, Inc.	USA	**100**	-
Macera Crematorium, Inc	USA	**100**	-
IVC-Santa Ana, LLC	USA	**100**	-

Note 16: Interests in Other Entities: Subsidiaries continued

(c) Complete list of subsidiaries continued

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 2013 the solvent winding up of a total of 14 entities was commenced and this process was completed during 2014.

(d) Subsidiaries with non-controlling interests ("NCI")

One subsidiary, Macquarie Memorial Park Pty Limited, has non-controlling interests of 16.86% (2013: 16.86%). During the year dividends totalling $203,000 were paid to non-controlling interests (2013: $35,745).

Note 17: Interests in Other Entities: Associates

(a) Interests in associates

(i) Set out below is the associate of the group at 31 December 2014. 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.

				% of ownership interest		Carrying Amount	
Name of entity	Country of incorporation	Nature of relationship	Measurement method	**2014 %**	2013 %	**2014 $'000**	2013 $'000
HeavenAddress Pte. Ltd	Singapore	Associate	Equity method	**34.59**	34.59	**2,423**	4,705

HeavenAddress Pte. Ltd offers online memorial services to allow families and communities 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 2014 (2013: Nil).

(b) Impairment

During 2014 a review of the Group's investment in its associate was undertaken which resulted in an impairment write down of $2,000,000. As a result the recoverable amount of Group's investment in its associate as at 31 December 2014 is now $2,423,000.

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% (2013: Nil) was used to discount the cash projections. This is higher than the 10.9% rate used for impairing 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 losses or 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 2014							
Cost	**107,727**	**78,685**	**128,958**	**4,534**	**5,148**	**109,302**	**434,354**
Accumulated depreciation/amortisation	**(6,665)**	**-**	**(46,737)**	**(2,641)**	**(2,554)**	**(66,936)**	**(125,533)**
Impairment write-downs	**(12,276)**	**-**	**-**	**-**	**-**	**-**	**(12,276)**
Net book amount	**88,786**	**78,685**	**82,221**	**1,893**	**2,594**	**42,366**	**296,545**
Year ended 31 December 2014							
Additions	**251**	**4,555**	**5,114**	**213**	**1,087**	**15,750**	**26,970**
Business combinations	**-**	**1,443**	**415**	**-**	**47**	**82**	**1,987**
Disposals	**-**	**-**	**(34)**	**(217)**	**(10)**	**(414)**	**(675)**
Depreciation/ amortisation & impairment charge	**2,156**	**-**	**(4,243)**	**(176)**	**(443)**	**(12,712)**	**(15,418)**
Effect of movement in exchange rates	**-**	**854**	**477**	**-**	**35**	**264**	**1,630**
Transfers/ reclassifications	**-**	**(1,578)**	**(1,609)**	**-**	**492**	**-**	**(2,695)**
Closing net book amount	**91,193**	**83,959**	**82,341**	**1,713**	**3,802**	**45,336**	**308,344**
At 31 December 2014							
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**
At 1 January 2013							
Cost	106,189	74,890	123,627	4,900	4,518	99,960	414,084
Accumulated depreciation/amortisation	(6,307)	-	(42,306)	(2,521)	(2,208)	(59,792)	(113,134)
Impairment write-downs	(15,976)	-	-	-	-	-	(15,976)
Net book amount	83,906	74,890	81,321	2,379	2,310	40,168	284,974
Year ended 31 December 2013							
Additions	1,772	763	3,662	-	601	12,794	19,592
Business combinations	-	1,994	1,041	-	29	496	3,560
Disposals	(233)	(1,370)	(760)	-	(7)	(368)	(2,738)
Depreciation/ amortisation & impairment charge	3,341	-	(4,022)	(486)	(352)	(11,786)	(13,305)
Effect of movement in exchange rates	-	2,408	979	-	13	1,062	4,462
Transfers/ reclassifications	-	-	-	-	-	-	-
Closing net book amount	88,786	78,685	82,221	1,893	2,594	42,366	296,545
At 31 December 2013							
Cost	107,727	78,685	128,958	4,534	5,148	109,302	434,354
Accumulated depreciation/amortisation	(6,665)	-	(46,737)	(2,641)	(2,554)	(66,936)	(125,533)
Impairment write-downs	(12,276)	-	-	-	-	-	(12,276)
Net book amount	88,786	78,685	82,221	1,893	2,594	42,366	296,545

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:

	2014 $'000	2013 $'000
Freehold buildings	**1,115**	937
Leasehold improvements	**129**	123
Plant and equipment	**2,513**	781
Total assets in the course of construction	**3,757**	1,841

(b) Impairment

All impaired cemetery and crematorium sites were reassessed at 31 December 2014 using the same methodology as previously applied and a net write back (i.e. reversal of previous impairment write downs) amounting to $2,500,000 was deemed necessary to the impairment provision. The net amount comprised of $2,500,000 in the reversal of previous impairments for two cemetery and crematorium sites in Queensland.

During 2013 a review of the Group's property requirements in the Australian Capital Territory ("ACT") identified an undeveloped parcel of leasehold land was no longer strategically significant to the Group's long-term growth in the ACT. Accordingly, it was decided to impair the parcel of land given that the costs to exit the site may exceed its carrying value. The parcel of land was subsequently sold in 2014 and as a result $100,000 of the initial impairment loss recognised in 2013 was reversed in 2014.

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

Site Name	Impairment Loss/(Reversal)		Recoverable Amount Estimates	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Allambe Gardens Memorial Park, Queensland	**(500)**	(3,000)	**15,000**	13,000
Mt Thompson Memorial Gardens, Queensland	**(2,000)**	(1,900)	**12,800**	10,800
Tweed Heads Memorial Gardens, New South Wales	**-**	1,200	**2,200**	2,100
Leasehold Land, Australian Capital Territory	**(100)**	407	**100**	-
	(2,600)	(3,293)	**30,100**	25,900

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% (2013: 10.9%), reflecting the risk estimates for the business as a whole.

(c) Property held for sale

During the year 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 building 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 2014			
Cost	**140,710**	**12,674**	**153,384**
Accumulated amortisation	**-**	**(4,472)**	**(4,472)**
Net book amount	**140,710**	**8,202**	**148,912**
Year ended 31 December 2014			
Additions	**-**	**-**	**-**
Acquisition of subsidiary / businesses	**2,315**	**48**	**2,363**
Effect of movement in exchange rates	**2,365**	**109**	**2,474**
Impairment	**-**	**-**	**-**
Amortisation charge	**-**	**(1,269)**	**(1,269)**
Net book amount	**145,390**	**7,090**	**152,480**
At 31 December 2014			
Cost	**145,390**	**12,922**	**158,312**
Accumulated amortisation	**-**	**(5,832)**	**(5,832)**
Net book amount	**145,390**	**7,090**	**152,480**
At 1 January 2013			
Cost	129,429	11,179	140,608
Accumulated amortisation	-	(3,124)	(3,124)
Net book amount	129,429	8,055	137,484
Year ended 31 December 2013			
Additions	-	435	435
Acquisition of subsidiary / businesses	4,451	473	4,924
Effect of movement in exchange rates	6,940	410	7,350
Impairment	(110)	-	(110)
Amortisation charge	-	(1,171)	(1,171)
Net book amount	140,710	8,202	148,912
At 31 December 2013			
Cost	140,710	12,674	153,384
Accumulated amortisation	-	(4,472)	(4,472)
Net book amount	140,710	8,202	148,912

(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.

(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% (2013: 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

	2014 $'000	2013 $'000
Current liabilities		
Interest rate swap contracts – cash flow hedges	**622**	1,342
	622	1,342
Non-current assets		
Interest rate swap contracts – cash flow hedges	**-**	1
	-	1
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	**5,284**	4,437
	5,284	4,437

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

In September 2010, a controlled entity entered into a bank loan amounting to SG$27 million which was renewed in 2012. This loan, which was taken out to support the investment in Singapore, has been designated as a hedge of the net investment in this subsidiary. The fair value and carrying amount of the borrowing at 31 December 2014 was $24.9 million (31 December 2013: $23.8 million). There was no ineffectiveness to be recorded from net investments in foreign entity hedges.

Note 21: Trade and Other Payables

	2014 $'000	2013 $'000
Current		
Trade payables	**25,560**	24,926
Sundry payables and accrued expenses	**9,879**	8,324
Deferred cash settlement for business interests acquired	**1,652**	1,313
	37,091	34,563
Non-current		
Deferred cash settlement for business interests acquired	**260**	1,124
	260	1,124

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

	2014 $'000	2013 $'000
Short-term borrowings		
Lease liabilities	**2**	11
	2	11
Long-term borrowings		
Borrowings are represented by:		
Principal amount of bank loans - unsecured	**230,304**	225,228
Lease liabilities	**-**	2
Loan establishment costs	**(954)**	(1,274)
	229,350	223,956

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

Note 23: Provisions for Employee Benefits

	2014 $'000	2013 $'000
Current		
Employee benefits	**13,726**	12,732
Non-current		
Liability for long service leave	**2,409**	2,027

	2014 Number	2013 Number
(a) Employee numbers		
Number of full-time equivalent employees	**1,532**	**1,470**

(b) Superannuation plan

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

(c) Exempt employee share plan

The company's Exempt Employee Share Plan provides employee members the opportunity to acquire ordinary shares in InvoCare Limited to the tax exempt value of $1,000. There are 321 members at 31 December 2014 and the balance owing by employee plan members for the purchase price of shares was $151,814 (2013: $161,962).

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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Trade and other payables	**37,091**	34,563	**37,091**	34,563
Short-term borrowings	**2**	11	**2**	11
Current tax liabilities	**9,364**	9,946	**9,364**	9,946
Prepaid contract liabilities	**33,847**	30,481	**33,847**	30,481
Deferred revenue	**7,588**	6,925	**7,588**	6,925
Employee benefits	**13,726**	12,732	**6,996**	6,604
	101,618	94,658	**94,888**	88,530

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

Note 25: Contributed Equity

	2014 $'000	2013 $'000
Fully paid ordinary shares	**131,682**	132,393

	2014 Number	2014 $'000	2013 Number	2013 $'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))	**(661,978)**	**(5,176)**	(631,733)	(4,465)
Total consolidated contributed equity	**109,368,320**	**131,682**	109,398,565	132,393

(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.

(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 2013	Balance	634,252	4,171
25 February 2013	Shares vested	(70,260)	(388)
28 February 2013 to 07 March 2013	Acquisition of shares by the Trust	77,003	842
	Forfeit of shares on termination of employment	(23,520)	(193)
01 July 2013	Transfer of shares to members of the Exempt Employee Share Plan	(13,927)	(160)
31 December 2013	Shares provisionally forfeited but not yet de-allocated by the Trustee	(36,740)	(179)
	Unallocated shares held by the Trustee	64,925	372
31 December 2013	Balance	631,733	4,465
25 February 2014	Shares vested	(71,735)	(457)
03 March 2014 to 10 June 2014	Acquisition of shares by the Trust	102,883	1,168
01 August 2014 to 16 August 2014	Forfeit of shares on termination of employment	(5,219)	(52)
31 December 2014	Shares provisionally forfeited but not yet de-allocated by the Trustee	(126,777)	(763)
	Unallocated shares held by the Trustee	131,093	815
31 December 2014	Balance	661,978	5,176

(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

	2014 $'000	2013 $'000
(a) Reserves		
Share-based payments reserve	**4,020**	3,142
Hedging reserve – cash flow hedge reserve	**(4,071)**	(3,989)
Foreign currency translation reserve	**6,807**	5,270
	6,756	4,423
Movements:		
Share-based payments reserve		
Balance at the beginning of the year	**3,142**	2,504
Deferred employee share plan expense	**1,335**	1,026
Vesting of deferred employee share plan shares	**(457)**	(388)
Balance at the end of the year	**4,020**	3,142
Hedging reserve		
Balance at the beginning of the year	**(3,989)**	(6,564)
Revaluation to fair value – gross	**(130)**	3,347
Deferred tax	**48**	(772)
Balance at the end of the year	**(4,071)**	(3,989)
Foreign currency translation reserve		
Balance at the beginning of the year	**5,270**	940
Currency translation differences	**1,537**	4,330
Balance at the end of the year	**6,807**	5,270
(b) Retained profits		
Movements in retained profits were as follows:		
Balance at the beginning of the year	**32,636**	21,173
Net profit for the year	**54,515**	48,869
Dividends paid during the year	**(38,784)**	(37,406)
Balance at the end of the year	**48,367**	32,636

(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 (s). The reserve is recognised in the profit and loss when the net investment is sold.

Note 27: Non-controlling Interests

	2014 $'000	2013 $'000
Reconciliation of non-controlling interests in controlled entities:		
Share capital	**800**	800
Retained earnings		
Balance at the beginning of the year	**346**	252
Add share of operating earnings	**112**	130
Less dividends paid	**(203)**	(36)
Closing balance of retained earnings	**255**	346
Reserves	**99**	99
Balance at the end of the year	**1,154**	1,245

Note 28: Capital and Leasing Commitments

	2014 $'000	2013 $'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	**10,095**	10,006
- between 12 months and five years	**22,148**	21,879
- greater than five years	**12,447**	14,814
	44,690	46,699

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	**9,714**	**381**	**10,095**
Between 12 months and five years	**21,886**	**262**	**22,148**
Greater than five years	**12,447**	**-**	**12,447**
	44,047	**643**	**44,690**

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.

	2014 $'000	2013 $'000
(b) Finance lease commitments		
Non-cancellable finance leases in respect of motor vehicles contracted for at the reporting date and capitalised in the financial statements:		
Payable – minimum lease payments		
- not later than 12 months	**2**	11
- between 12 months and five years	**-**	2
	2	13
(c) Capital expenditure commitments		
Capital expenditure commitments contracted or conditionally contracted at the reporting date but not recognised as liabilities payable:		
Building purchase	**-**	4,085
Building extensions and refurbishments – within one year	**1,099**	48
Plant and equipment purchases – within one year	**2,162**	1,398
(d) Other expenditure commitments		
Documentary letters of credit outstanding at balance date payable:		
- within one year	**68**	129

Note 29: Business Combinations

Charles Crawford and Sons

(a) Summary of acquisition

On 15 December 2014, a subsidiary, InvoCare Australia Pty Limited, completed the acquisition of the funeral business assets of Charles Crawford and Sons ("Charles Crawford") which has operated in the Melbourne market since 1987.

Provisional accounting for this acquisition has been completed as at 31 December 2014.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

(b) Purchase consideration

	$'000
Purchase consideration	
Cash paid	2,103
Total purchase consideration	2,103
Fair value of net identifiable assets acquired (refer (c) below):	1,247
Goodwill	856

The goodwill recognised is attributable to the workforce and the profitability of the acquired business. It will not be deductible for tax purposes.

(c) Assets acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value $'000
Inventories	17
Prepayments	3
Property, plant and equipment	1,280
Brand name	48
Deferred tax liabilities	(101)
Net identifiable assets acquired	1,247

The acquired business contributed revenues of $73,000 and after tax profit of $23,000 to the Group for the period from 15 December 2014 to 31 December 2014. If the acquisition had occurred on 1 January 2014, consolidated revenue for the year ended 31 December 2014 would have increased by approximately $1,211,000 and profit after tax by approximately $165,000.

Macera Crematorium, Inc

(a) Summary of acquisition

On 26 November 2014, a subsidiary, InvoCare USA, Inc., completed the acquisition of the crematorium business assets of Macera Crematorium, Inc ("Macera") which has operated in the Santa Ana, California market in the United States since 1991.

Provisional accounting for this acquisition has been completed as at 31 December 2014.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

(b) Purchase consideration

	$'000
Purchase consideration	
Cash paid	2,162
Total purchase consideration	2,162
Fair value of net identifiable assets acquired (refer (c) below):	703
Goodwill	1,459

The goodwill recognised is attributable to the expected synergy benefits following Group's entry into a new market. It will not be deductible for tax purposes.

Note 29: Business Combinations continued

Macera Crematorium, Inc continued

(c) Assets acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value $'000
Property, plant and equipment	707
Provisions	(4)
Net identifiable assets acquired	703

The acquired business contributed revenues of $79,000 and after tax profit of $4,000 to the Group for the period from 26 November 2014 to 31 December 2014. If the acquisition had occurred on 1 January 2014, consolidated revenue for the year ended 31 December 2014 would have increased by approximately $547,000 and profit after tax by approximately $6,000.

Tilton, Opie & Pattinson Funeral Services

The funeral business assets of Tilton, Opie & Pattinson Limited were acquired in 2013.

Included in the purchase contract was a $46,000 retention payment which was paid in 2014.

Resthaven Funeral Services

The funeral business assets of Resthaven Funeral Services were acquired in 2013.

Included in the purchase consideration was $324,000 in future payments to be paid if predetermined revenue targets are achieved in each of the next five calendar years. In early 2015 a payment totalling $95,000 of the $324,000 in future payments will be made.

Tuckers Funeral & Bereavement Services

Tuckers Funeral & Bereavement Services Pty Ltd and Geelong Mortuary Transfer Services Pty Ltd were acquired in December 2012.

Included in the purchase consideration was $2,100,000 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 2013 and as a result $574,000 of the $2,100,000 in future payments was paid in 2014. The predetermined revenue target was also achieved in 2014 and as a result $700,000 of the $2,100,000 in future payments will be paid in early 2015.

Note 30: Contingent Liabilities and Contingent Assets

	2014 $'000	2013 $'000
The Group had contingent liabilities at 31 December 2014 in respect of bank guarantees given for leased premises of controlled entities to a maximum of:	**1,088**	1,221

For information about the deed of cross guarantees 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

	2014 $'000	2013 $'000
Reconciliation of cash flow from operations with profit from ordinary activities after income tax		
Profit from ordinary activities after income tax	**54,515**	48,869
Non-cash items in profit from ordinary activities		
Depreciation, amortisation and impairment	**21,187**	19,487
Reversal of impairment loss	**(2,600)**	(4,900)
Share-based payments expense	**1,596**	1,148
Loan establishment costs	**366**	589
Imputed interest from deferred purchase consideration	**91**	113
Net (gain) / loss on disposal of property, plant and equipment	**(334)**	(2,972)
Unrealised (gain) / loss on prepaid contracts	**(10,915)**	(1,590)
Other prepaid contract movements	**186**	325
Business acquisition costs classified in investing activities	**1,215**	537
Share of net loss of an associate	**525**	300
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and other receivables	**(2,954)**	(3,204)
(Increase)/decrease in inventories	**(676)**	(275)
(Increase)/decrease in deferred selling expenses	**(326)**	(382)
Increase/(decrease) in trade and other payables	**1,665**	8,464
Increase/(decrease) in deferred revenue	**2,615**	3,009
Increase/(decrease) in income taxes payable	**(583)**	4,730
Increase/(decrease) in deferred taxes	**3,520**	253
Increase/(decrease) in provisions	**2,660**	(2,285)
	71,753	72,216

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 2014 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

	2014 $'000	2013 $'000
Consolidated income statement of the Closed Group		
Revenue from continuing operations	**339,301**	323,264
Finished goods and consumables used	**(94,809)**	(90,617)
Employee benefits expense	**(84,014)**	(78,668)
Employee related and on-cost expenses	**(20,683)**	(18,770)
Advertising and public relations expenses	**(12,082)**	(10,865)
Occupancy and facilities expenses	**(20,648)**	(20,309)
Motor vehicle expenses	**(7,381)**	(6,829)
Other expenses	**(14,025)**	(13,056)
	85,659	84,150
Depreciation, impairment and amortisation expenses	**(14,956)**	(15,644)
Reversal of impairment loss	**600**	4,900
Finance costs	**(13,113)**	(14,683)
Interest income	**672**	606
Net gain / (loss) on prepaid contracts	**10,915**	1,892
Acquisition costs	**(482)**	(273)
Inter-segment revenue	**2,073**	1,943
Share of net loss of associate	**(525)**	(300)
Net gain / (loss) on disposal of non-current assets	**322**	217
Profit before income tax	**71,165**	62,808
Income tax expense	**(18,616)**	(15,809)
Profit for the year	**52,549**	46,999
Changes in the fair value of cash flow hedges, net of tax	**212**	2,140
Changes in foreign currency translation reserve, net of tax	**(227)**	(3,207)
Other comprehensive income for the year, net of tax	**(15)**	(1,067)
Total comprehensive income for the year	**52,534**	45,932
Summary of movements in consolidated retained profits of the Closed Group		
Retained profits at the beginning of the financial year	**37,298**	27,705
Profit for the year	**52,549**	46,999
Dividends paid	**(38,784)**	(37,406)
Retained profits at the end of the financial year	**51,063**	37,298

Note 32: Deed of Cross Guarantee continued

(b) Balance sheet of the Closed Group

	2014 $'000	2013 $'000
Current assets		
Cash and cash equivalents	**1,011**	3,080
Trade and other receivables	**33,082**	31,996
Inventories	**20,128**	19,385
Prepaid contract funds under management	**32,997**	28,991
Property held for sale	**2,519**	-
Deferred selling costs	**1,138**	1,039
Total current assets	**90,875**	84,491
Non-current assets		
Trade and other receivables	**44,578**	12,933
Shares in subsidiaries	**130,704**	185,477
Property, plant and equipment	**246,936**	238,607
Prepaid contract funds under management	**367,970**	328,435
Intangible assets	**11,688**	11,048
Deferred selling costs	**8,203**	7,972
Equity accounted investments	**2,423**	4,705
Total non-current assets	**812,502**	789,177
Total assets	**903,377**	873,668
Current liabilities		
Trade and other payables	**31,376**	28,046
Derivative financial instruments	**613**	1,342
Current tax liabilities	**7,051**	7,666
Prepaid contract liabilities	**33,554**	28,631
Deferred revenue	**7,588**	6,925
Provisions for employee benefits	**10,508**	11,883
Total current liabilities	**90,690**	84,493
Non-current liabilities		
Trade and other payables	**-**	29,118
Long-term borrowings	**193,500**	190,870
Derivative financial instruments	**4,864**	4,437
Deferred tax liabilities	**28,770**	24,443
Prepaid contract liabilities	**359,995**	331,041
Deferred revenue	**42,818**	40,915
Provisions for employee benefits	**2,165**	1,914
Total non-current liabilities	**632,112**	622,738
Total liabilities	**722,802**	707,231
Net assets	**180,575**	166,437
Equity		
Contributed equity	**131,682**	132,393
Reserves	**(2,170)**	(3,254)
Retained profits/(Accumulated losses)	**51,063**	37,298
Total equity	**180,575**	166,437

Note 33: Events after the Balance Sheet Date

No significant subsequent events have occurred since 31 December 2014.

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 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

	2014 $	2013 $
Transactions with other related parties		
Contributions to superannuation funds on behalf of employees	**7,513,557**	7,091,636

(e) Guarantees and other matters

Under the terms of common terms deed executed on 20 December 2013, 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.

Under Australian income tax consolidation legislation, InvoCare Limited assumes responsibility for the income tax payable by the consolidated Australian tax group comprising InvoCare Limited and its wholly-owned entities. A Tax Sharing and Funding Agreement ("TSA") between InvoCare Limited and its wholly-owned Australian entities covers the funding, accounting and calculation of the tax liability for each individual entity, and also caters for entities joining and exiting the group. In accordance with the terms of the TSA, InvoCare Australia Pty Limited makes tax payments on behalf of InvoCare Limited and receives reimbursement through the intercompany loan account for amounts paid except for the tax allocated to that entity.

Note 35: Parent Entity Financial Information

(a) Summary financial information

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

	2014 $'000	2013 $'000
Balance sheet		
Current assets	**75**	25
Total assets	**368,240**	372,632
Current liabilities	**8,254**	9,529
Total liabilities	**174,791**	174,231
Shareholders' equity		
Contributed equity	**131,682**	132,393
Reserves		
Share-based payments	**4,020**	3,142
Hedging reserve – cash flow hedge reserve	**(3,833)**	(4,045)
Foreign currency translation reserve	**837**	-
Retained earnings	**60,743**	66,911
Total shareholders' equity	**193,449**	198,401
Profit for the year after tax	**32,615**	44,311
Total comprehensive income for the year	**34,542**	46,997

Note 35: Parent Entity Financial Information continued

(b) Contingent liabilities of the parent entity

	2014 $'000	2013 $'000
The parent entity had contingent liabilities at 31 December 2014 in respect of bank guarantees given for leased premises of controlled entities to a maximum of:	**1,088**	1,221

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 31December 2014 (31 December 2013: Nil).

(d) Tax consolidation legislation

InvoCare Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 January 2004. The accounting policy in relation to this legislation is set out in Note 1(g).

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 $30,450,000 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 $41.4 million at 31 December 2014 (2013: $39.2 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 $2.5 million (decrease by $1.2 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 4, 153 Walker Street
North Sydney NSW 2060

Note 39: Authorisation of the Financial Report

This financial report was authorised for issue by the directors on 17 February 2015. 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 46 to 96 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 2014 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

Andrew Smith
Director

Sydney
17 February 2015

Independent auditor's report to the members of InvoCare Limited

Report on the financial report

We have audited the accompanying financial report of InvoCare Limited (the company), which comprises the consolidated balance sheet as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the InvoCare Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2,201 Sussex Street,GPO BOX 2650, Sydney NSW 1171
T +61 2 8266 0000, F +61 2 8266 9999,

Auditor's opinion

In our opinion:

(a) the financial report of InvoCare Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 28 to 42 of the directors' report for the year ended 31 December 2014. 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.

Auditor's opinion

In our opinion, the remuneration report of InvoCare Limited for the year ended 31 December 2014 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of InvoCare Limited (the company) for the year ended 31 December 2014 included on InvoCare Limited's website. The company's directors are responsible for the integrity of the InvoCare Limited website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this website.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brett Entwistle
Partner

Sydney
17 February 2015