



2017 Annual Report

Protect and Grow

Our Mission

“We’re here to support our clients, their families and friends, at a pivotal time in their lives.

We do this by being compassionate, exceeding expectations and delivering outstanding service.”



Protect and Grow

We are implementing a \$200 million Protect and Grow plan for long-term sustainable growth.

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Performance highlights

Continued focus on operational efficiency delivered strong performance in the first year of implementing the Protect and Grow plan, operating earnings after tax have increased by 10.6% despite the temporary closure of a number of our locations for renovations.

Operating sales revenue

(\$ million)



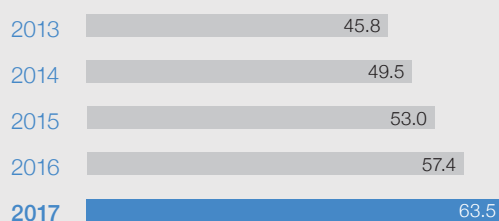
Operating EBITDA

(\$ million)



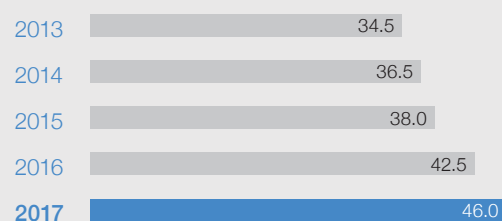
Operating earnings after tax

(\$ million)



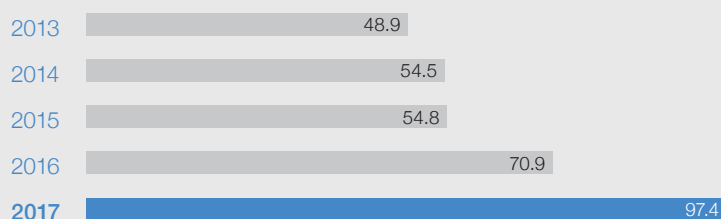
Ordinary dividends per share

(cents per share)



Profit after tax attributable to members

(\$ million)



Chairman's Message

Implementing Protect and Grow

InvoCare is providing the pathway for sustainable double digit EPS growth through the \$200 million Protect and Grow plan.

The performance during 2017 was solid. Operating EBITDA increased by the largest amount in five years, up 7.8% (\$124.3 million). Operating earnings (after tax) increased by 10.6% (\$63.5 million), mainly due to the reduced cost of debt. Reported Profit increased by 37.3% (\$97.4 million) on 2016 driven by strong performance in prepaid funeral funds under management, which, once again, enjoyed strong returns from the property investments of the funds.

The performance of the core business was affected by the commencement of the four year \$200 million Protect and Grow plan's implementation phase in Q4 2017. This resulted in a number of properties being closed for renovation which impacted sales and, as a result, Operating EBITDA.

In 2018 it is expected the impact of the renovation programme will be more pronounced than was the case in 2017 as it will be across the full year and involve the closure of a larger number of properties. In addition to the impact on Operating EBITDA, this reinvestment plan will also affect operating EPS growth due to higher debt finance costs and depreciation. For this reason the Company announced in February 2018 that it was expecting low single digit year on year growth for Operating EBITDA, and that operating EPS growth was expected to be flat in 2018.

The Directors consider that the short term impact of this programme on results will be more than outweighed by the longer term benefits of both strengthening the ability to compete and providing the pathway for sustainable double digit operating EPS growth.

Update on Protect and Grow

The debt funding arrangements required to fund the programme have been successfully negotiated and InvoCare now has in place facilities which total \$450 million with \$243.1 million having been drawn at the end of 2017. InvoCare took the opportunity presented by this negotiation to both expand our banking syndicate and secure some longer term debt whilst lowering our overall average interest rate. The new facilities include a three year revolving facility of \$200 million, a fixed 5 year facility of \$150 million and a 10 year fixed rate note for \$100 million.

Operating earnings after tax

10.6% ▲

Operating earnings after tax increased to \$63.5 million

Dividends

8.2% ▲

Dividends for the year increased to 46 cents per share

Cash conversion ratio

91%

Strong cash conversion ratio with 91% of Operating EBITDA converted to cash



Richard Fisher AM
Chairman

Five-year Financials

\$'000	2017	2016	2015	2014	2013
Operating sales revenue	470,852	462,476	448,359	424,087	395,044
Operating EBITDA	124,316	115,344	110,089	105,170	99,243
Operating EBITDA margin	26.4%	24.9%	24.6%	24.8%	25.1%
Operating earnings after tax	63,526	57,417	52,999	49,466	45,804
Operating earnings per share (cents)	57.9	52.4	48.4	45.2	41.9
Profit after tax attributable to members	97,439	70,949	54,844	54,515	48,869
Earnings per share (cents)	88.8	64.7	50.1	49.8	44.7
Dividend paid in respect of the financial year (cents)	46.00	42.50	38.00	36.50	34.50
Ungeared, tax free operating cash flow	112,656	105,007	99,545	101,512	94,604
Proportion of EBITDA converted to cash	91%	91%	90%	97%	95%
Actual capital expenditure	47,471	30,321	22,035	26,665	19,264
Net Debt	258,609	222,927	222,093	218,862	215,057
Operating EBITDA / Net interest (times)	11.3	11.0	9.2	8.3	7.1
Net debt / EBITDA (times)	2.1	1.9	2.0	2.1	2.2
Funeral homes (number)	228	233	231	234	237
Cemeteries and crematoria (number)	16	16	16	14	14
Employees (full time equivalents)	1,644	1,566	1,557	1,532	1,470
Prepaid contract sales per 100 redemptions	111	142	115	108	115

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

Network and Brand Optimisation

The management team delivered 22 refreshed sites, two enhanced sites and four new locations during 2017. This is in line with our target for the year and our decision to implement the programme over 4 years. The Directors took the view that the timeframe enabled the success of the programme to be effectively monitored and for it to be adjusted if experience dictated the desirability of doing so. Work also commenced during the year on a further 51 sites (25 refreshed, 11 enhanced and 15 new locations). In 2018, InvoCare will deliver 68 sites (41 refreshed, 12 enhanced and 15 being new growth locations).

People and Culture

The 'regional manager model' based around geography was successfully implemented to achieve a more collaborative approach to delivering the highest level of service to our customers. To further embed the principles of customer service, InvoCare launched an incentive programme for front line employees to drive improvements in its Net Promoter Score.

We also formed a Culture Planning Team which combined the knowledge of external cultural advisors, with a broad technical and geographical spread of employees from within the business. The team has developed a plan to embed the beliefs, behaviours and attributes to build on the culture and InvoCare values.

Operational Efficiencies

The two key projects are the implementation of the new business system (Oracle Cloud

solution) and the establishment of regional operational centres to support the hub and spoke model of the customer facing locations. I'm pleased to share that in 2017, the key preparatory work has been completed for these projects and the new business system will be implemented in 2018.

Nomination Committee

Two new directors were appointed to the Board in 2017 as part of the planned Board renewal exercise. As I informed shareholders in last year's Annual Report, Robyn Stubbs joined us on 1 January 2017 and we were then pleased to welcome Bart Vogel to InvoCare on 1 October 2017. Bart brings a wealth of experience to the Board from his leadership roles in the professional services and technology industries. He currently serves as Chairman of Infomedia Limited and is on the board of Macquarie Telecom Limited, Salmat Limited and BAI Communications. Bart has also served on the Board of the Children's Cancer Institute for the past 10 years.

After assessing her future commitments in the context of personal family circumstances, Joycelyn Morton who retires by rotation at the conclusion of the AGM, has decided not to stand for re-election. On behalf of the Board, I extend our best wishes to Joycelyn and thank her for her positive contributions, particularly as Chairman of the Audit, Risk & Compliance Committee, which had to deal with some challenging changes to the Accounting Standards, as well as to the restructuring and development of the finance group.

The Board renewal exercise will continue in 2018 with the appointment of an additional Director and also a Director to replace Joycelyn.

The contract with our CEO (Martin Earp) was extended for a further three years, and the appointment of Amanda Tober (People & Culture) and Damien MacRae (COO) in Q4 2017 and Q1 2018 respectively completed the renewal of the Group Executive Team.

With the renewal of the Board well underway and the Leadership team renewal completed, it is my intention as outlined at the 2017 AGM to oversee the transition of the role of Chairman later this year.

On behalf of the Board and all shareholders, I express our appreciation to the entire InvoCare team for delivering on our core customer service values and achieving good financial results.

I would also like to express the Board's thanks to the Company's shareholders for their continuing support. This is important as we guide and encourage InvoCare's executives to deliver financial results to shareholders and, very importantly, care, understanding and support to our customers.



Richard Fisher AM
Chairman

Investing to address the changing needs of the customer

In 2017 the business delivered a solid performance in the first year of implementing the Protect and Grow plan. This demonstrates the commitment of our people to our client families as we transform our business to meet the changing needs of our customers over the next 5-10 years.



Martin Earp
Chief Executive Officer

Summary of 2017

The fundamentals of the business remain strong and this year's performance needs to be seen in the context of the continuing impact a more contemporary funeral is having on the market share of the traditional funeral business. The reinvestment required for InvoCare to address the changing needs of the customer has meant the temporary closure of a number of our locations for renovations and this impacted results in 2017.

Despite the effect the renovation programme had on sales the operational performance of the business delivered an increase in Operating EBITDA of 7.8% over 2016 which is the largest year on year increase in Operating EBITDA since 2012. Whilst overall sales for the Group were up 1.8%, driven by case average increases of 3.1%, the continued focus on operational efficiency resulted in an 180bps improvement in operating margin which underpinned the performance for 2017.

The continued strong Operating EBITDA to cash flow conversion ratio (91%) allowed InvoCare to increase its dividend per share to 46 cents (up 8.2% on 2016) representing a payout ratio of 80%. InvoCare also began the implementation of its Protect and Grow plan and this saw capex increase in 2017 up to \$59.0 million (2016: \$25.2 million). In summary, the business continues to perform strongly during a period of transformation.

Our people continue to show their passion for the business and our client families, with 84% of employees participating in the 2017 Employee Engagement survey, compared with 73% in 2015. Overall employee engagement increased from 81.1% to 85.1% and we are focussed on building the strong culture within the business.

Australia

The Australian business Operating EBITDA increased to \$107.8 million (up 6.4% on 2016) in a market where the number of deaths increased by 1.7%. This result was under-pinned by a strong result in the Cemeteries and Crematoria business (sales +8.9% and volumes up +4.3%), whilst the funeral business was challenged by the change in customer needs and the renovation work conducted in Q4 2017 (sales +0.2% and volumes -2%).

The strong performance of the Cemeteries and Crematoria business was driven by cultural, structural and remuneration changes made in 2015 which were designed to foster a collaborative approach to serving the customer. These changes are being applied to the funeral business and will compliment the improvements to the physical product being rolled out in 2018.

The focus on identifying operational efficiencies continued in 2017 and overall costs increased by only 0.9% year on year which resulted in the operating margin increasing to 26.4% (up 100bps on 2016).

Sensible cost control was augmented by increasing cross-company procurement efficiencies driven out of head office.

New Zealand

The New Zealand business Operating EBITDA increased to \$10.8 million (up 13.1%). Strong case volume (+4%) was driven by a more tempered approach to pricing (case average up 1.2%) in a market where the overall number of deaths increased by 5.2%. Expenses increased by 4.2% which was driven mainly by the organisational restructure put in place to increase the capabilities of the local leadership team at the regional level and provide greater technical support from head office. Overall it was a pleasing performance in a year which also saw a smooth transition of leadership.

Singapore

The performance of the Singapore business was impacted by the planned closure of its main location for renovation as part of the Protect and Grow plan. This closure impacted performance in Q4 of 2017. Whilst the results were above budget, the year on year performance for Singapore saw Operating EBITDA decline to \$7.2 million (-14.2%) with sales down 6.4% and volumes down 3.3%. It should be noted the overall number of deaths in Singapore decreased by 2% which further impacted performance. The team continued to operate in Q4 and used alternative venues to mitigate the effect the renovation shut down had on performance.

The Singapore business also acquired an adjacent location to house the administration requirements which freed up more customer facing space (additional funeral parlours) in the main location. This investment was made to take advantage of the planned closure of the Mt Vernon parlours by the Singapore Government in Q4 2018. Our main location is scheduled to re-open following renovation in Q2 2018.

USA

As previously communicated to the market, InvoCare withdrew from the funeral business in the USA in February 2017 due to the difficulties faced with securing sufficient full-service cremation and burial cases from the 'digital only' platform. The IP generated from this investment has been utilised in the Australian business as part of the Value Cremations product offering. The business also successfully sold its crematorium business based in California (September 2017) to mark a complete exit from the US market. These decisions resulted in an Operating EBITDA loss of \$0.2 million in 2017 which was substantially reduced from the loss of \$2.3 million in 2016.

Pillars of Growth

- **Deaths** – the number of deaths for 2017 increased by 1.7%, which is above the average expected increase but this result bought the overall performance into line with the long term forecasts.

- **Market Share** – overall market share declined by 90bps which is driven mainly by the shift in customer needs impacting the traditional market segment. The market share loss slowed in H2 2017 and this was despite the loss of volume due to the renovation closures in Q4.

- **Funeral Case Average** – case average increased by 3.1% which is in line with historic norms. The increase is less than the half year which was due to some more aggressive price matching by the traditional brands, the ramp up of Value Cremations and some case mix adjustments.

- **Operational Efficiency** – the focus on operational efficiency entered the second phase of the plan and resulted in operating margin increasing by 150bps. After identifying some operational changes in 2016, the focus on 2017 was on procurement. The full impact of these procurement improvements will be felt in 2018 and 2019. InvoCare is also working on the stage three improvements which focus on work practices and greater regionalisation of operational support.

- **Acquisitions and Divestments** – following a full review of the market InvoCare has recommenced its programme of acquisitions. InvoCare will continue to identify opportunities in its core market, but the scale of the overall business does make large acquisitions in this space a challenge. As such InvoCare has decided to expand its target market beyond metropolitan areas to include regional cities and towns in Australia and New Zealand. InvoCare will continue to demonstrate discipline in its capital allocation decisions and any acquisitions must be both value accretive for shareholders and ensure a good cultural fit with our core values.

- **Prepaid Funerals** – total funds under management increased by 15.4% to \$545.8 million which was driven by the strong performance of property held in trust in the Over Fifty Guardian Friendly Society. Whilst redemptions make up 14.7% of InvoCare sales, prepaid contracts sold continue to be strong and are 11% ahead of redemptions for 2017. The funds allocation at the end of 2017 were 20% in equities, 16% in property and 64% in cash and equivalents.

Outlook

InvoCare has taken strategic steps to proactively address the changes to the market and the impact this could have on its market position. This is demonstrated by both its withdrawal from the US market and also the announcement of its \$200 million Protect and Grow plan. These decisions mean the business is well positioned to maximise the benefits of the opportunities presented by the change in customer preferences and the increasing impact these will have on the industry over the next 5-10 years.

A funeral home for today and the future

InvoCare is transforming the business for today and the future, to meet the changing needs of the customer. Today's consumer is looking for more from a funeral service and InvoCare is addressing this through the Protect and Grow plan.

Three years ago InvoCare undertook nationwide research which clearly showed consumer needs were changing and the business is now implementing a plan to meet these changing needs.

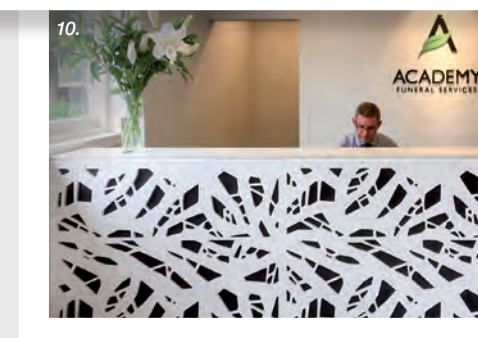
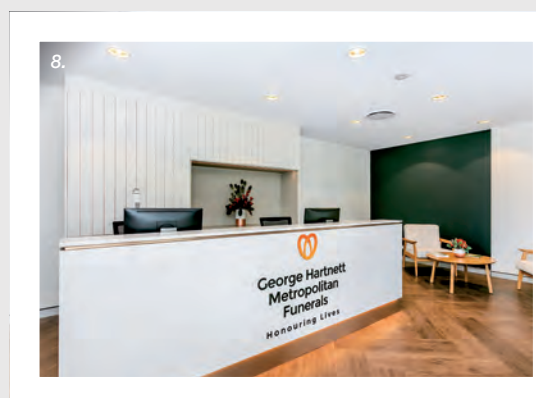
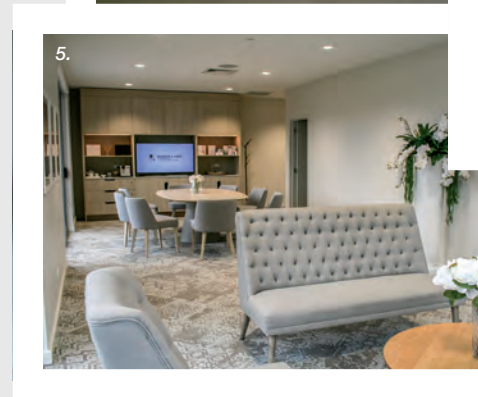
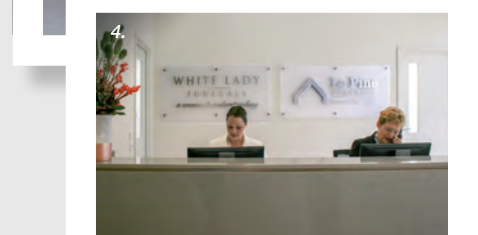
People want more involvement in the planning, a more bespoke approach, less traditional service and a more contemporary service much like how people approach planning a wedding. Families are also looking for more choice and value for money. Funerals have become an 'event' (even multiple events) to celebrate life. These days, story telling is key. There is also a rise in individualism and a decline in religiosity. Consumers are now demanding personalisation and families want to be more involved in organising the funeral.

The facilities of a funeral home are also becoming a key reason for consumer choice, with many looking for the 'one stop shop', providing a range of products and services. Technology is also playing an increasing role, not only in the delivery, but also during funeral planning. Families are looking for a venue where they can pay their respect to their loved one in a contemporary environment, pause for a moment in a reflection garden, before celebrating the life in a memorial lounge where high quality food and beverages are served, while digital and quality audio-visual support the overall planning and experience at the service.

As part of the Protect and Grow plan, InvoCare is upgrading all facilities, investing in its people and improving business systems to meet the changing needs of customers.

The market is changing, but not around price, rather the need for contemporary facilities, services, more options, a more bespoke product offering and better value. Customers are seeking more involvement in organising a contemporary funeral that celebrates the life of their 'loved one' in a high quality venue, rather than the more traditional approach to funerals.

By implementing these changes, InvoCare is transforming the business for sustainable, long term growth.



A look at the funeral home of today and the future

From research to extensive planning, InvoCare transformed the first locations as part of the \$200 million Protect and Grow plan and started the development of the first 'one-stop-shop' funeral home. The funeral home opened in Dandenong Victoria in March 2018 under the White Lady Funerals and Le Pine Funerals brands.

Images 1-6: Le Pine Funerals and White Lady Funerals, Dandenong, VIC
1. The Le Pine Funerals and White Lady Funerals team;
2. Le Pine Funerals and White Lady Funerals; **3.** Chapel;
4. Reception; **5.** Arrangement Room; **6.** Memorial Lounge.



3.



6.



7.



9.

Progress in 2017

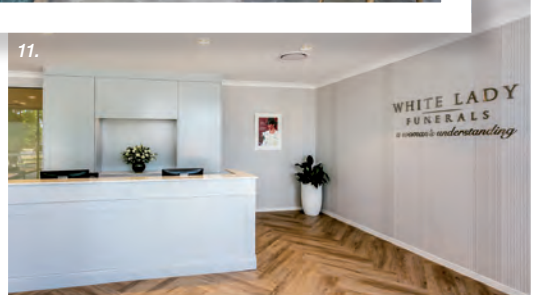
As part of the Network and Brand Optimisation programme in the Protect and Grow plan, refurbishments to 24 locations were completed in 2017, with work commencing on a further 36. These have been to shopfronts and some larger locations, bringing them in line with open, inviting facilities that will meet the contemporary needs of the consumer.

In 2017, InvoCare also opened four new locations with work commencing on a further 15 new locations.

In 2018, InvoCare plans to deliver 41 refreshed sites and a further 12 sites will be enhanced. In addition to this work will commence on a further 21 locations. The 15 new locations commenced in 2017 will be completed and InvoCare will continue to commence work on more new locations in 2018.

Images: **7.** Simplicity Funerals, Kallangur, QLD; **8.** George Hartnett Metropolitan Funerals, North Lakes, QLD; **9.** Singapore Casket, Singapore, **10.** Academy Funerals, Christchurch, New Zealand; **11.** White Lady Funerals, Wynnum, QLD.

11.



A sustainable future for InvoCare

InvoCare is committed to a sustainable future through a governance framework to support its people, client families and the communities in which it operates.

Risk

The Board has overall responsibility and accountability for the management of risk within the business and management pursues the identification, assessment, control and monitoring of its material risks to prevent or mitigate impacts to the business in line with our risk appetite. During 2017, we continued to review and refine our Risk Management Framework in order to provide a robust and effective strategy, strong governance, sustainable financial performance and a healthy and safe workplace for all.

The Board governs risks across a number of categories and our appetite to each is determined within the context of our industry sector – funeral services. These risk categories include:

- Our Reputation,
- Legal Compliance,
- Safety,
- Fraud and Corruption,
- Customer Service,
- People,
- Environment,
- Our Competitive Environment,
- Non-Regulatory Standards,
- Commercial and Operational Decision Making,
- Acquisitions, and
- Innovation and Transformation.

The identification, assessment and control of risks within each category is conducted in consultation with executives and senior leaders throughout the business as well as external consultants, and are incorporated into the risk register as appropriate. The Audit, Risk & Compliance Committee reviews and approves the risk register for adoption by the Board and further governance is provided through internal audit functions to assist in ensuring controls are understood, implemented and effective.

Health, Safety and Environment

A priority for 2018 is to further lift the profile of Health, Safety and the Environment with proactive leadership, accountability and visibility with regards to our performance.

InvoCare has a full time Health and Safety team with a broad range of experience who work diligently to improve our safety culture, set strategic objectives, monitor compliance and reduce risk across the business. We constantly review our health and safety processes supporting our people to focus on delivering excellent service to our clients and provide strong and effective leadership in the pursuit of safe, healthy and environmentally responsible workplaces.

InvoCare also recognises its employees face challenging emotional situations as they deal with grieving families. To assist and support, a confidential employee assistance programme is provided by an external company, free of charge to our employees and their families, for those who wish to use the service.

Diversity

InvoCare is committed to promoting a diverse work environment with a focus on creating an inclusive organisational culture where all individuals feel respected and valued. The nature of InvoCare's business means its employees come into daily contact with families from every walk of life and facet of society so a focus on inclusion makes a direct contribution to the business' ongoing success, as well as being aligned to its communities and stakeholder expectations.

Particular focus continues towards the achievement of gender equality at the Australian management level by the end of 2020, that is, a minimum of 45% management roles will be held by either gender. Currently 45% of senior management roles are held by women, with the Board comprising 33% and the Group Executive comprising 25%.

In November 2017, a gender pay equity review was conducted for key operational management roles with the results indicating a less than 4% difference in the average annualised salary between men and women. This will continue to be monitored on an annual basis with the intent to deliver pay equity.

The Australian entity is a relevant employer under the terms of the Workplace Gender Equality Act.

People Development

InvoCare is committed to providing strong skills-based training and development to all employees. InvoCare's core technical training suite comprises of specific training opportunities within four key pillars:

- Onboarding
- HSE & Compliance
- Customer Experience
- Customer Service

In addition, in 2018, InvoCare will be investing in the development of a Leadership Programme targeted to our Regional and Area Managers in support of our strategy to further develop Local Leaders.

Sourcing

InvoCare supports the social and environmental sustainable sourcing practices. InvoCare's sourcing practices supports Australian companies and wherever possible, we support the local community.

Our coffins are sourced from Australian companies using woods that are from sustainably managed forests and meets AS/NZS 1859.2:2004 that is independently tested and accredited by the Engineered Wood Products Association of Australia (EWPAA) and achieved AS 4707:2006 Chain-of-Custody certification to the Australian Forestry Standard (AFS / 01-31-145). Our suppliers also use products that are certified members of the programme for the Endorsement of Forest Certification (PEFC) and New Zealand's Forest Stewardship Council Chain of Custody and Controlled Wood.

Community

As part of the service provided, InvoCare employees play a strong role in communities at all levels. Many of InvoCare's funeral homes, cemeteries and crematoria arrange free memorial services at important times of the year – such as at Christmas or on Mother's and Father's Day, to provide extra support and as a general community service. They also support events of religious or cultural significance including Lunar New Year, Waitangi Day, Easter, Ching Ming, Anzac Day, All Souls' Day, Chung Yeung and Remembrance Day.

Employees connect with their local communities through sponsorship support, donations and volunteering and many are members of Lions Clubs, Rotary, Zonta and Apex.

In 2017, White Lady Funerals and Mareena Purslowe Funerals continued a strong partnership with Share the Dignity, offering all locations as a drop off point for donations during the Dignity Drives to support homeless women and teenage girls in April and October.

The traditional funeral brands in Australia also participated in the Winter Blanket Appeal, collecting much needed blankets for thousands of homeless people across Australia.

Environment

InvoCare is committed to reducing its carbon footprint wherever feasible.

There are no obligations imposed on InvoCare under the Australian National Greenhouse and Energy Reporting Act 2007 (Cth) which impose reporting requirements when total emissions exceed 50,000 tonnes of CO₂ in total or 25,000 tonnes at a single location. The last assessment of total emissions was completed in 2014 and this analysis showed InvoCare's total emission on a world-wide basis were less than 18,000 tonnes of CO₂.

At the end of 2017, InvoCare refreshed its motor vehicle fleet to include more than 140 hybrid petrol electric vehicles, more than 30 LPG vehicles and over 70 diesel passenger vehicles which means more than 40% of the fleet is operating on lower emission fuel types. InvoCare has invested heavily in upgrading its cremators over the last 10 years to ensure they operate with lower emissions and reduce fuel usage.

InvoCare operates over 300 hectares of cemetery land which provides an offset to its other emissions through natural processes.

Cyber Security

InvoCare maintains the personal details of a significant number of individuals in order to provide services now or in the future.

InvoCare addresses the cyber threat landscape by consistently improving its ability to protect the extensive data domain and Business Information Systems which are used by InvoCare's employees and client families.

In Q1 2017, a penetration test was carried out by an independent firm, which rated InvoCare's network infrastructure as "satisfactory standard". This testing is conducted at a random time each year by an independent firm.

InvoCare's cyber security governance, management and operational practices are designed to protect its business and provide assurance in response to the changing threat landscape. In addition to continually improving its cyber security position by implementing new security systems, InvoCare is focussed on increasing its cyber security readiness by raising awareness with its workforce as an additional line of defence.

Leadership Team

The InvoCare leadership team deploy operational excellence and technical insights to deliver the best results for the business, customers and stakeholders.

In 2017, the focus on local leadership was embedded in the business. Local leaders are critical to the business model, to work in a collaborative manner with centralised technical experts to deliver the highest level of performance. This marries the best of the entrepreneurial local leader with the benefits of a professional corporate support team.

Set for success

2017 saw the appointment of Amanda Tober to Group Executive for People & Culture. Amanda brings to InvoCare a vast experience in leading People & Culture teams through a number of industries, diverse cultural settings and in businesses that have had a strong people delivery dimension to their operations. Most recently she led the development of a combined target culture for Computer Sciences Corporation Australia (CSC), who in 2016

acquired one of Australia's largest IT Services businesses, ASX listed UXC Connect Pty.

After an extensive recruitment programme in 2017, Damien MacRae joined InvoCare in February 2018 as Chief Operating Officer for the Australia and New Zealand operations. Damien brings extensive leadership experience to InvoCare and has led businesses of similar scale and size across both Australia and Asia. He was most recently Chief Operating Officer, Asia Pacific for Experian a global information services company, where he spent two years in Singapore leading a team of more than 1,000 people.

The experience of the leadership team ensures InvoCare is well positioned to focus on providing the best possible customer experience as the business moves through the implementation of the Protect and Grow plan.



1. **Steve Nobbs** Group Executive Commercial Director, 2. **Amanda Tober** Group Executive People & Culture, 3. **Graeme Rhind** Chairman New Zealand, 4. **Lachlan Sheldon** Group Executive Capital Management, 5. **Josée Lemoine** Chief Financial Officer, 6. **Martin Earp** Chief Executive Officer, 7. **Damien MacRae** Chief Operating Officer Australia & New Zealand, 8. **Wee Leng Goh** Chief Executive Officer Singapore, 9. **Fergus Kelly** Chief Marketing Officer, 10. **Keiron Humbler** Group Executive Business Operations

Annual Financial Report

InvoCare Limited and Controlled Entities Annual Financial Report for the financial year ended 31 December 2017

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

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

Level 2, 40 Miller Street
North Sydney NSW 2060

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

The financial report was authorised for issue by the directors on 19 February 2018. 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

Directors' Report

The directors submit their report on the consolidated entity comprising InvoCare Limited (the "Company") and the entities it controlled at 31 December 2017. 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 financial year and until the date of this report:

Richard Fisher (Chairman)
Martin Earp
Richard Davis
Gary Stead
Joycelyn Morton
Robyn Stubbs (appointed 1 January 2017)
Bart Vogel (appointed 1 October 2017)

Christine Clifton resigned as an independent Non-executive director effective 28 February 2017.

Principal activities

The Group is the leading provider of services in the funeral industry in Australia, New Zealand and Singapore. 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 were \$63,526,000 (2016: \$57,417,000) as reconciled on page 13. The consolidated after tax profit of the Group attributable to shareholders was \$97,439,000 (2016: \$70,949,000). More detailed information is included in the operating and financial review set out in this report.

Dividends

The Directors have recommended a final, fully franked dividend of 27.50 cents per share payable on 6 April 2018. Total full year dividends are 46.00 cents, being 3.50 cents or 8.2% higher than 2016. The full year dividend payout ratio is 80% (2016: 82%) of operating earnings after tax.

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

	2017 \$'000	2016 \$'000
Interim ordinary dividend of 18.50 cents (2016: 17.00 cents) per fully paid share paid on 6 October 2017	20,353	18,706
Final ordinary dividend of 27.50 cents (2016: 25.50 cents) per fully paid share has been recommended by directors on 19 February 2018 to be paid on 6 April 2018	30,258	28,058
Total ordinary dividends of 46.00 cents (2016: 42.50 cents)	50,611	46,764

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

The Dividend Reinvestment Plan ("DRP") was available for the 2017 interim dividend, \$18,784,000 (2016: \$16,842,000) was paid in cash and \$1,569,000 (2016: \$1,863,000) through the issue of 102,209 (2016: 134,327) shares purchased on market at \$15.35 (2016: \$13.87) per share via the DRP. The DRP take-up was not underwritten in 2017 and shares were not issued at a discount. The DRP will apply to the final 2017 dividend which is not being underwritten and no discount to the market price will apply.

Operating and Financial Review

	2017	2016	Change	
Result highlights:	\$'000	\$'000	\$'000's	%
Operating sales revenue ⁽ⁱ⁾	470,852	462,476	8,376	1.8%
Other revenue ⁽ⁱ⁾	3,027	3,529	(502)	(14.2%)
Operating expenses ⁽ⁱ⁾	(349,563)	(350,661)	1,098	0.3%
Operating EBITDA ⁽ⁱ⁾	124,316	115,344	8,972	7.8%
<i>Operating margin</i>	26.4%	24.9%		1.5%
Depreciation and amortisation ⁽ⁱ⁾	(21,256)	(21,323)	67	0.3%
Finance costs	(12,417)	(13,555)	1,138	8.4%
Interest income	1,005	964	41	4.3%
Business acquisitions costs	(392)	(79)	(313)	(396.2%)
Operating earnings before tax ⁽ⁱ⁾	91,256	81,351	9,905	12.2%
Income tax on operating earnings ⁽ⁱ⁾	(27,730)	(23,934)	(3,796)	(15.9%)
<i>Effective tax rate</i>	30.4%	29.4%		0.9%
Operating earnings after tax ⁽ⁱ⁾	63,526	57,417	6,109	10.6%
<i>Operating earnings per share ⁽ⁱ⁾</i>	<i>57.9 cents</i>	<i>52.4 cents</i>	<i>5.5 cents</i>	<i>10.5%</i>
Net gain on prepaid contracts ⁽ⁱ⁾	58,907	19,851	39,056	
Asset sales gains/(losses) ⁽ⁱ⁾	2,287	(676)	2,963	
Impairment loss and restructuring cost ⁽ⁱ⁾	(11,527)	(154)	(11,373)	
Non-controlling interest	(123)	(99)	(24)	
Non-operating earnings before tax ⁽ⁱ⁾	49,544	18,922	30,622	
Tax on non-operating items	(15,631)	(5,390)	(10,241)	
Non-operating earnings after tax ⁽ⁱ⁾	33,913	13,532	20,381	
Net profit after tax attributable to ordinary equity holders of InvoCare	97,439	70,949	26,490	37.3%
Basic earnings per share	88.8 cents	64.7 cents	24.1 cents	37.2%
Diluted earnings per share	88.0 cents	64.6 cents	23.4 cents	36.2%
Interim ordinary dividend per share	18.5 cents	17.0 cents	1.5 cents	8.8%
Final ordinary dividend per share	27.5 cents	25.5 cents	2.0 cents	7.8%
Total ordinary dividend per share	46.0 cents	42.5 cents	3.5 cents	8.2%

(i) Non-IFRS financial information.

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

The Group has changed the presentation of operating EBITDA, operating earnings and net gain on prepaid contracts by reclassifying all amounts related to the administration and financial impacts of the prepaid funeral business to be reported in a separate line item in the above table under net gain on prepaid contracts after tax. This has resulted in normalisation adjustments to sales, other revenue and operating expenses to reflect the exclusion of the financial impact of the prepaid funeral business. The Directors consider that the presentation of all activities related to funds under management as non-operating will provide a clearer and more relevant reflection of the Group's operating performance and results.

Prior year comparatives as at 31 December 2016 have been restated to show the impact of this change in presentation. Operating sales revenue has been increased by \$13.9 million (2016: \$11.9 million), other revenue has been reduced by \$6.0 million (2016: \$6.7 million), operating expenses have been increased by \$3.5 million (2016: \$2.1 million), net gain on prepaid contracts has been increased by \$4.4 million (2016: \$3.1 million) and ungeared, tax free operating cash flows decreased by \$1.8 million (2016: \$12.0 million) with a corresponding impact on cash outflow from investing activities to adjust for the non-operating impact of prepaid funeral services.

There is no impact on net profit after tax and no impact on the presentation of items in the income statement presented in the Consolidated Income Statement on page 46.

Directors' Report continued

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 1.5% annual increase in deaths;
 - Consistent annual 3-4% case average increases;
 - Market share improvements, including new funeral locations and business acquisitions;
- Prepaid contracts securing future market share for InvoCare; and
- Operating leverage improvement, through cost control and operational efficiency improvements.

Most pillars contributed positively to 2017 results as depicted in the following table. More detail is provided throughout this report, including in the Outlook section on page 23.

Favourable demographics	✓
Average contract values	✓
Market share	✗
Prepaid contracts	✓
New locations/business acquisitions	✓
Operating leverage improvement	✓

Financial overview

A solid result was achieved this year in a competitive environment and during a transformative period for the Group. Strong memorialisation sales in the cemeteries and crematoria business mitigated lower than expected sales in the Australian funeral market and together with on-going cost management delivered strong bottom line financial performance. Group operating EBITDA improved by \$9.0 million or 7.8% to \$124.3 million (2016: \$115.3 million). For the comparable business, that is, excluding the USA operations, operating EBITDA increased \$6.2 million or 5.2% to \$124.6 million (2016: \$118.5 million). This was achieved through a combination of increased sales revenue, improved margins, effective cost management and a reduction in the losses sustained by USA operations as a result of its closure during 2017.

Normalised total Group sales revenue was up 1.8% or \$8.4 million to \$470.9 million (2016: \$462.5 million). The increase was due to a combination of higher average funeral contract values and increased memorialisation sales in the cemeteries and crematoria business.

The Protect & Grow Plan announced in February 2017 is underway with the larger part of the work on our properties commencing in the second half of the year.

Overall numbers of deaths in InvoCare's core markets increased by approximately 1.7% compared to 2016. The second half of 2017 saw a slowdown in the Company's market share decline (down 90bps on a rolling 12-month basis, against a decline of 130bps on a rolling 12-month basis as at June 2017). This was achieved despite the implementation of the Network Brand & Optimisation programme which necessitated having sites off-line for refurbishment. The phasing of the work was structured to minimise business disruption with major work being undertaken in Q4. It was estimated that around 500 cases were lost due to the NBO programme.

Initial results of the NBO pilot sites are positive with revenues, in the six months after refurbishment ahead of the average increase assumed in the Protect & Grow Plan.

A strong focus on productivity and cost discipline resulted in an increase of 0.8% in the comparable business' operating costs over the PCP which is lower than CPI. This was achieved primarily by containing cost of goods sold and through savings in other expenses such as travel, information technology, doubtful debts and professional fees.

As a percentage of sales, comparable EBITDA margins improved from 24.9% in 2016 to 26.4% in 2017. Improvement occurred in both halves with margins rising from 22.2% in first half 2016 to 24.0% in first half 2017, whilst in the second half, margins increased 1.2% from 27.5% in 2016 to 28.6%.

Statutory reported revenue was up 1.1% or \$5.1 million to \$466.0 million (2016: \$460.8 million).

Statutory reported profit after tax was up 37.7% or \$26.6 million to \$97.6 million (2016: \$71.0 million) due to a significant increase in gains on prepaid contracts on the previous year. Appreciation in the value of property investments held by the main Guardian Trust fund within the Over Fifty Guardian Friendly Society Trust, along with gains made on the sale of a commercial property, were the key drivers behind the improved performance.

Operating cash flows remained strong for the year. Ungeared, tax free operating cash flow excluding impacts from prepaid funeral business was 91% of EBITDA (2016: 91%), underpinning the ability to pay a fully franked final dividend of 27.50 cents per share, which is 2.00 cents up on last year. This is in addition to the 18.50 cent interim dividend paid in October 2017, taking total dividends declared for the year to 46.00 cents (2016: 42.50 cents).

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

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

	1H17 \$'000	1H16 \$'000	Var %	2H17 \$'000	2H16 \$'000	Var %	FY17 \$'000	FY16 \$'000	Var %
Operating Sales Revenue									
Australia	193,176	190,158	1.6%	214,756	208,985	2.8%	407,932	399,143	2.2%
New Zealand	22,497	20,606	9.2%	23,872	23,640	1.0%	46,369	44,246	4.8%
Singapore	8,429	8,386	0.5%	7,232	8,850	(18.3%)	15,661	17,236	(9.1%)
Comparable business	224,102	219,150	2.3%	245,860	241,475	1.8%	469,962	460,625	2.0%
USA & Acquisitions	689	935		200	916		889	1,851	
Total	224,791	220,085	2.1%	246,060	242,391	1.5%	470,851	462,476	1.8%
Operating EBITDA									
Australia	46,057	43,150	6.7%	61,711	58,167	6.1%	107,768	101,317	6.4%
New Zealand	4,558	3,706	23.0%	5,518	5,289	4.3%	10,076	8,995	12.0%
Singapore	4,040	3,899	3.6%	2,753	4,257	(35.3%)	6,793	8,156	(16.7%)
Comparable business	54,655	50,755	7.7%	69,982	67,713	3.4%	124,637	118,468	5.2%
USA & Acquisitions	(763)	(1,950)		442	(1,174)		(321)	(3,124)	
Total	53,892	48,805	10.4%	70,424	66,539	5.8%	124,316	115,344	7.8%
Margin on sales									
Australia	23.8%	22.7%	1.2%	28.7%	27.8%	0.9%	26.4%	25.4%	1.0%
New Zealand	20.3%	18.0%	2.3%	23.1%	22.4%	0.7%	21.7%	20.3%	1.4%
Singapore	47.9%	46.5%	1.4%	38.1%	48.1%	(10.0%)	43.4%	47.3%	(3.9%)
Comparable business	24.4%	23.2%	1.2%	28.5%	28.0%	0.4%	26.5%	25.7%	0.8%
USA & Acquisitions									
Total	24.0%	22.2%	1.8%	28.6%	27.5%	1.2%	26.4%	24.9%	1.5%

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

	1 H17 \$'000	1 H16 \$'000	Var %	2 H17 \$'000	2 H16 \$'000	Var %	FY 17 \$'000	FY 16 \$'000	Var %
Total – all lines of business									
Operating Sales Revenue	224,791	220,085	2.1%	246,061	242,391	1.5%	470,852	462,476	1.8%
Other revenue	1,586	2,004	(20.9%)	1,441	1,525	(5.5%)	3,027	3,529	(14.2%)
Expenses:									
Cost of goods sold	(59,970)	(60,011)	0.1%	(64,434)	(67,014)	3.8%	(124,404)	(127,025)	2.1%
Personnel	(74,991)	(73,569)	(1.9%)	(75,257)	(72,908)	(3.2%)	(150,248)	(146,477)	(2.6%)
Advertising & promotions	(11,419)	(11,695)	2.4%	(11,458)	(11,235)	(2.0%)	(22,877)	(22,930)	0.2%
Occupancy & facility expenses	(14,404)	(14,323)	(0.6%)	(13,997)	(14,127)	0.9%	(28,401)	(28,450)	0.2%
Motor vehicle expenses	(3,685)	(3,782)	2.6%	(4,404)	(4,094)	(7.6%)	(8,089)	(7,876)	(2.7%)
Other expenses	(8,016)	(9,904)	19.1%	(7,528)	(7,999)	5.9%	(15,544)	(17,903)	13.2%
Operating expenses	(172,485)	(173,284)	0.5%	(177,078)	(177,377)	0.2%	(349,563)	(350,661)	0.3%
Operating EBITDA	53,892	48,805	10.4%	70,424	66,539	5.8%	124,316	115,344	7.8%
<i>Operating margin %</i>	<i>24.0%</i>	<i>22.2%</i>	<i>1.8%</i>	<i>28.6%</i>	<i>27.5%</i>	<i>1.2%</i>	<i>26.4%</i>	<i>24.9%</i>	<i>1.5%</i>

Directors' Report continued

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

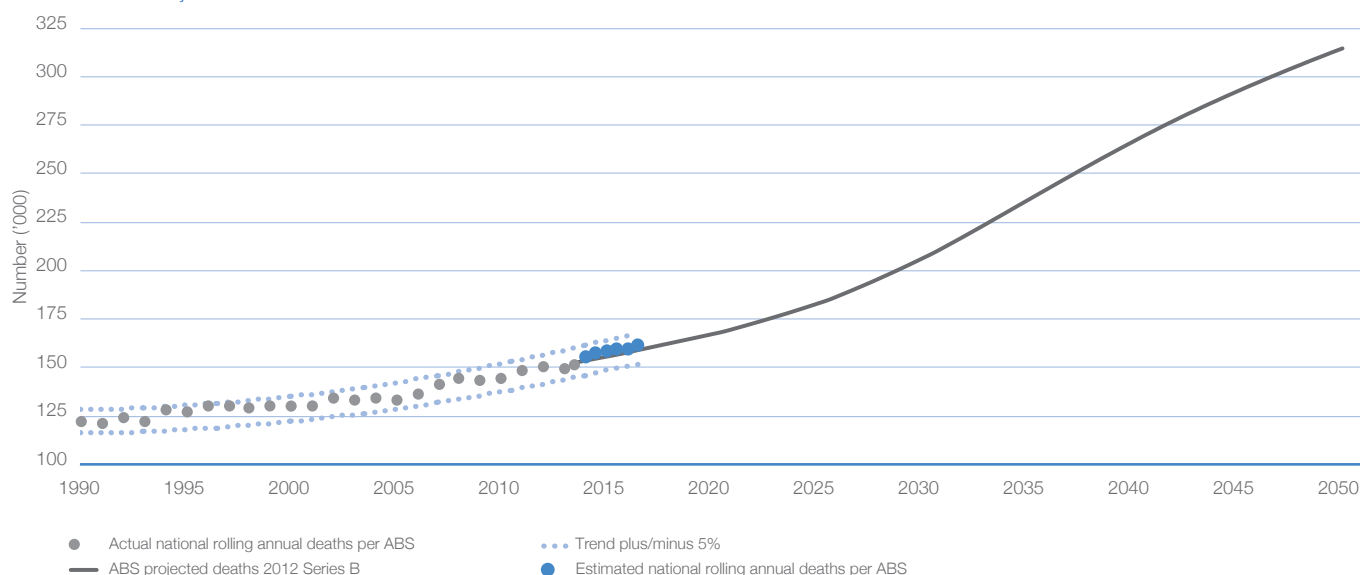
	1 H17 \$'000	1 H16 \$'000	Var %	2 H17 \$'000	2 H16 \$'000	Var %	FY 17 \$'000	FY 16 \$'000	Var %
Total – all lines of business									
Operating Sales Revenue	224,102	219,150	2.3%	245,861	241,475	1.8%	469,963	460,625	2.0%
Other revenue	1,372	1,938	(29.2%)	1,428	1,139	25.4%	2,800	3,077	(9.0%)
Expenses:									
Cost of goods sold	(59,887)	(59,819)	(0.1%)	(64,413)	(66,845)	3.6%	(124,300)	(126,663)	1.9%
Personnel	(73,972)	(72,451)	(2.1%)	(75,591)	(71,844)	(5.2%)	(149,563)	(144,295)	(3.7%)
Advertising & promotions	(11,304)	(10,618)	(6.5%)	(11,458)	(10,489)	(9.2%)	(22,762)	(21,107)	(7.8%)
Occupancy & facility expenses	(14,306)	(14,219)	(0.6%)	(13,988)	(14,021)	0.2%	(28,294)	(28,240)	(0.2%)
Motor vehicle expenses	(3,636)	(3,680)	1.2%	(4,388)	(4,018)	(9.2%)	(8,024)	(7,698)	(4.2%)
Other expenses	(7,714)	(9,547)	19.2%	(7,468)	(7,684)	2.8%	(15,182)	(17,231)	11.9%
Operating expenses	(170,819)	(170,334)	(0.3%)	(177,306)	(174,901)	(1.4%)	(348,125)	(345,234)	(0.8%)
Operating EBITDA	54,655	50,754	7.7%	69,983	67,713	3.4%	124,638	118,468	5.2%
<i>Operating margin %</i>	<i>24.4%</i>	<i>23.2%</i>	<i>1.2%</i>	<i>28.5%</i>	<i>28.0%</i>	<i>0.4%</i>	<i>26.5%</i>	<i>25.7%</i>	<i>0.8%</i>

Number of deaths and cases

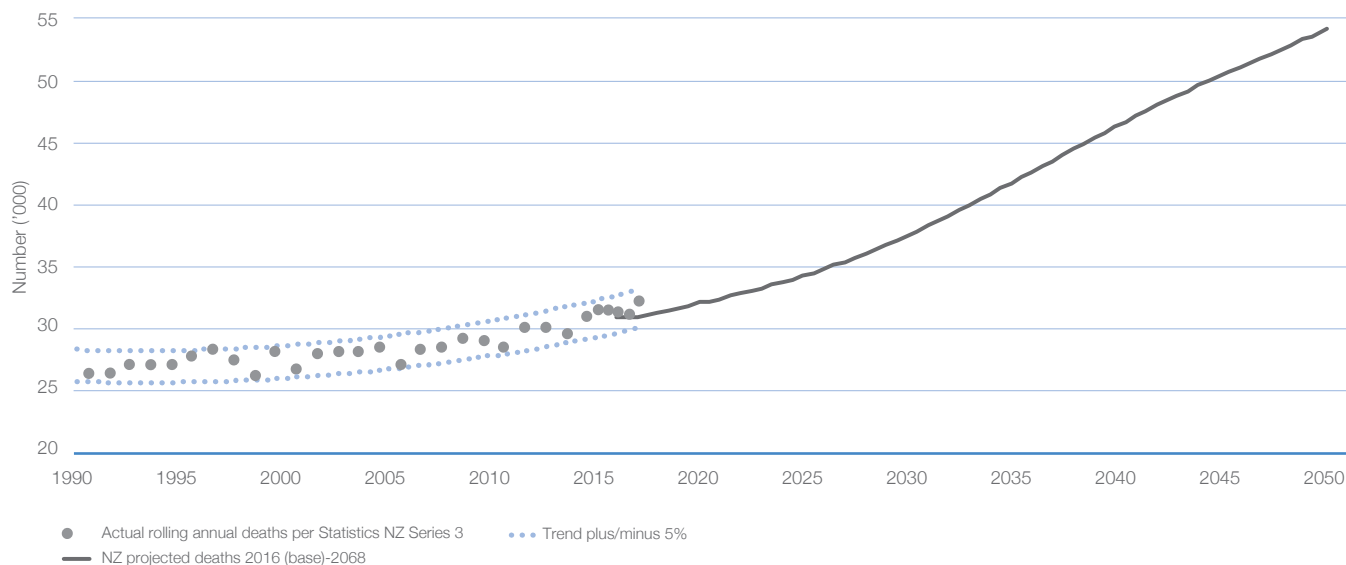
The number of deaths continues to be a significant driver of InvoCare's performance. The ageing of the population in InvoCare's markets and the long-term trend of increasing numbers of deaths are major pillars of growth for the Group. However, short-term fluctuations in the numbers of deaths do occur 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.

Actual and Projected Calendar and Fiscal Year Deaths – Australia



Actual and Projected Calendar and Fiscal Year Deaths – New Zealand



Commentary on the period since 31 December 2017 is set out in the Outlook section on page 23.

Sales

Key components of the comparable sales movements are summarised below:

- Australian funeral sales** increased 0.2% or \$0.5 million to \$301.6 million (2016: \$301.1 million).
 - Average revenue per funeral contract, excluding disbursements and delivered prepaid impacts, increased 2.9% (2016: 4.1%) and contributed an estimated \$6.7 million to sales growth. Contributing to the average revenue were the combined effects of price increases (averaging between 2% and 3%) and strong performance in markets which have historically yielded high average revenue per contract such as Victoria and New South Wales.
 - InvoCare's market intelligence indicates that across its markets, the number of deaths increased by approximately 1.7%. The second half of 2017 saw a slowdown in the Company's market share decline. This was achieved despite the start of the implementation of the Network and Brand Optimisation programme. It necessitated having sites off-line for refurbishment in Q4 and is evident in volume decline of 2.0%. The principal factor impacting market share is changing consumer preferences, primarily in the traditional market segment where customers are looking for a more contemporary service offering. The need to respond to this change has been clearly communicated and is the rationale for the Protect and Grow plan.
- Australian cemeteries and crematoria sales** were up 8.9% or \$8.7 million to \$106.4 million (2016: \$97.7 million). Services performed increased by 4.3%, price increases were similar to the funeral business and memorialisation sales were strong. The net increase in the deferred revenue pool of unconstructed memorials was approximately \$0.1 million (2016: \$2.0 million) taking the pool to approximately \$17.0 million (2016: \$16.9 million) which will be constructed and included in sales revenue in future periods. New contracts added to the pool amounted to \$4.7 million (2016: \$6.0 million) and the amount constructed and included in sales was \$4.6 million (2016: \$4.0 million). In addition, deferred revenue includes \$48.9 million (2016: \$46.5 million) of pre-sold plaques, ash containers and other miscellaneous items deliverable and recognisable in sales revenue at the customer's future time of need.
- New Zealand sales** (in NZD) were up 5.9% or \$2.8 million to \$50.0 million (2016: \$47.2 million). Case volumes were up 4.0%, largely due to an increase in number of deaths and it is expected that for the full year a minor loss of market share will be recorded. Funeral case averages increased 1.2% in a competitive local market. New Zealand cemetery and crematoria business, in NZD, recorded sales growth of 17.5% or \$0.4 million, in line with case volume growth experienced by the funeral business. In AUD, New Zealand sales were up 4.8% to \$46.4 million (2016: \$44.2 million) which included unfavourable FX movements of \$0.5 million.
- Singapore funeral sales** (in SGD) decreased by 6.4% to \$16.6 million (2016: \$17.7 million). During Q4, the parlours were closed for major renovations as a result case volume decreased 3.3%. Hiring of third party parlours mitigated some of the decrease. Case averages decreased 2.8% on last year, mainly as a result of price competition in a low death rate environment. In AUD, Singapore sales decreased 9.1% to \$15.7 million (2016: \$17.2 million) which included unfavourable FX movements of \$0.5 million.
- The USA funeral business** ceased operations in March 2017. The crematory business was sold in September 2017. USA operations contributed US\$0.5 million, (AU\$0.7 million), to the Group's sales revenue in 2017.
- Intra-group elimination of cemeteries and crematoria sales to InvoCare owned funeral homes amounted to \$13.9 million (2016: \$12.8 million).

Directors' Report continued

Other revenue

Other revenue decreased by \$0.5 million or 14.2% to \$3.0 million (2016: \$3.5 million) largely as a result of lower rebate income received from newspapers, following a reduction in the number of customers choosing to place death notices.

Operating expenses

Operating expenses (excluding depreciation, amortisation, loss on disposal of subsidiaries, acquisition related, restructuring and finance costs) decreased \$1.1 million or 0.3% to \$349.6 million (2016: \$350.7 million). Sustainable cost management and ongoing reviews to secure improved procurement agreements from key suppliers resulted in an increase in the Operating EBITDA to sales margin to 26.4% from 24.9% in 2016.

Cost of goods sold was favourably impacted by contract negotiations with key suppliers and as a percentage of sales improved by 110bps to 26.4% compared to the PCP.

Personnel costs were up 2.6%. Excluding the impact of redundancies of \$1.1 million (2016: \$1.7 million) and \$0.1 million of project related personnel costs (2016: \$0.6 million), the increase on the PCP was 3.2%, consistent with the awards and enterprise agreements in place for the majority of the workforce.

Advertising and promotions for the Group was mostly flat on last year. The comparable business increased its spend by \$1.7 million or 7.8% to \$22.8 million (2016: \$21.1 million) as part of the investment in the Network & Brand Optimisation (NBO) stream of the Protect & Grow Plan including the launch of funeralplanner.com.au. In addition, greater spend was undertaken in the Qld & WA markets to combat increased competition.

Occupancy and facility expenses were largely in line with last year with increased rentals from new NBO shop fronts offset by relocation incentives.

Motor vehicle expenses were up \$0.2 million or 2.7% to \$8.1 million (2016: \$7.9 million) with a comparable business increase of \$0.3 million or 4.2%, largely as a result of higher fuel prices and an increase in customers choosing to have mourning cars as part of the funeral services.

Other group expenses decreased by \$2.4 million or 13.2% to \$15.5 million (2016: 17.9 million). Cost discipline delivered reductions in expenditure on information technology, legal fees and professional fees.

Operating EBITDA¹

Operating EBITDA for the Group increased \$9.0 million or 7.8% to \$124.3 million (2016: \$115.3 million). This improvement was achieved through a combination of growth in sales and prudent cost management.

In local currency, Australia and New Zealand recorded strong EBITDA growth, whilst Singapore recorded a decline due to the temporary closure of their parlours in the last quarter of 2017. Growth in Operating EBITDA to sales margin was achieved in Australia and New Zealand, whereas the Singapore business recorded a decline, again due to the closure of its parlours and high proportion of fixed costs.

Unfavourable foreign exchange movements impacted Operating EBITDA by \$0.3 million, as the NZD and SGD weakened against the AUD over the period.

Depreciation and amortisation expenses

Depreciation and amortisation expenses of \$21.3 million were largely in line with last year as the NBO projects did not begin depreciating until the end of the financial year.

Finance costs

Finance costs declined by \$1.1 million to \$12.4 million (2016: \$13.5 million). The decrease in the Group's effective interest rate was primarily due to the lower interest rates achieved after more expensive swaps expired in the second half and lower margins due to an improvement in leverage ratio. More information about the Group's debt facilities is set out under the Capital Management section.

Acquisition related costs

Acquisition costs of \$0.4 million were incurred as a number of potential acquisition opportunities are being explored (2016: \$0.1 million).

Share of associate

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

1. Operating EBITDA is non-IFRS financial information.

Prepaid contract performance

Net gains on prepaid contracts were \$63.3 million (2016: \$22.9 million). The gain comprised a \$73.5 million increase in the fair value of funds under management offset by an increase of \$10.2 million in the future liability to deliver prepaid services.

The fair value uplift of \$73.5 million in funds under management was \$34.1 million higher than last year due to returns on the main Guardian Fund being impacted by strong appreciation in value of the property investments portfolio held by the main Guardian Fund, along with a material gain made on the sale of a commercial property.

During the year, the prepaid liability was increased to progressively recognise the impact of expected price increases. The resulting increase of \$10.2 million in this liability (2016: \$16.5 million) was formulated having regard to the timing and quantum of price increases applied at mid-year.

The number of new prepaid funeral contracts sold for the Australian business decreased by 21.0% on the previous year, but continued to exceed the number of prepaid services performed by 11.0% (2016: 42.0%). The previous year, especially the second half, benefited from strong customer demand for prepaid funeral contracts prompted by the planned implementation of the new age pension entitlement rules which came into effect on 1 January 2017. Sales during the current year returned to historical trend. Prepaid funerals performed in the year were 14.7% (2016: 14.3%) of comparable at need funerals.

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

Approximately 88% of InvoCare's prepaid funds under management are with the Over Fifty Guardian Friendly Society. Asset allocations for this fund remained relatively steady over the year with strong returns delivered from direct property investments. The trustees of the Guardian fund continue to evaluate asset allocation strategies that will deliver required returns with acceptable levels of risk and volatility. This may see a further shift in asset classes should the right opportunities be identified.

Asset allocations, which are closely reviewed, are set out below:

	31 Dec 2017 %	30 June 2017 %	31 Dec 2016 %
Equities	20	17	13
Property	16	30	32
Cash and fixed interest (includes hybrid securities)	64	53	55

The higher proportion of cash and fixed interest held at 31 December 2017 includes the proceeds from a property sale in the last quarter which was awaiting reinvestment.

Asset sales

Asset sale gains were mainly as a result of the sale of a funeral home site in Sydney owned by the Group.

Impairments

All cemetery and crematoria sites and the Group's investment in its associate were reassessed during 2017. Taking a conservative approach, a net impairment loss of \$10.9 million has been recognised. The net amount consists of a \$12.0 million write down for Allambe Gardens Memorial Park, reflecting a recent strategic review and the updating of long term modelling for the site, offset by \$1.1 million reversal of a previous impairment write down for Mt Thompson Memorial Gardens due to improvements in the financial performance of that site.

Recent strong sales years at Allambe have prompted a reassessment of plans to increase the land available for memorialisation plots. The residual land available requires remediation before further memorialisation plots can be developed. Development approval has been obtained from the local council and planning is underway to develop additional memorialisation plots. The related investment case is being finalised and expected to be approved in the first half of 2018. Remediation will follow shortly thereafter. Once this work has been completed, the recoverable amount of the park will be reassessed.

Income tax expense

Income tax expense on reported profit was \$43.4 million (2016: \$29.3 million), representing an effective rate of 30.6% (2016: 29.2%). An analysis of tax paid, based on tax residency status, for Australia and the Group is set out below.

Directors' Report continued

	Australia		Group	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Profit before tax	123,601	96,928	140,923	100,372
Tax at nominal rate in relevant country	37,080	29,078	41,557	29,173
Increase / (decrease) due to non-temporary differences				
Non deductible loss on sale of subsidiaries	2,983	-	323	-
Other items	198	(816)	246	925
Increase / (decrease) due to temporary differences				
Unrealised prepaid contract funds under management gains and losses	(17,614)	(6,357)	(17,614)	(6,357)
Impairment of cemetery land	3,270	-	3,270	-
Other items	1,114	1,354	1,471	1,603
Income tax paid or payable	27,031	23,259	29,253	25,344
Income tax paid¹	21.9%	24.0%	20.8%	25.2%
Income tax expense	41,756	27,695	43,361	29,324
Effective tax rate	33.8%	30.7%	30.6%	29.2%

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

Governance of the tax planning for the Group has been delegated by the Board to the Audit, Risk & Compliance Committee who have adopted a conservative approach when considering tax planning initiatives. The Committee receives a regular report on the Group's tax compliance and tax planning initiatives are not implemented until they receive approval from the Audit, Risk & Compliance Committee.

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

In addition to income tax paid, the Australian group pays payroll tax, \$6.2 million in 2017 (2016: \$5.7 million), fringe benefits tax, \$2.5 million in 2017 (2016: \$2.3 million) and land tax on owned buildings, \$4.1 million in 2017 (2016: \$3.5 million), to various state governments. Council and water rates paid to various authorities totaled \$1.6 million in 2017 (2016: \$1.9 million).

Cash flow highlights

The operating EBITDA conversion to cash ratio for the period was 91% which was equal to that achieved in 2016, as shown in the table below.

	2017 \$'000	2016 \$'000
Operating EBITDA excluding pre-paid business¹	124,300	115,300
Statutory ungeared, tax free operating cash flow¹	114,411	117,023
Add receipts from funds for pre-paid contracts performed ¹	39,065	36,766
Less receipts from pre-paid contract sales ¹	(38,758)	(46,669)
Less other cash flows related to the pre-paid fund funeral business ¹	(2,062)	(2,113)
Ungeared, tax free operating cash flow excluding pre-paid business¹	112,656	105,007
Proportion of operating EBITDA converted to cash ¹	91%	91%

1. Non-IFRS information.

Capital expenditure by strategy is:

	2017 \$'000	2016 \$'000
Business as usual	22,333	32,109
Protect and Grow plan	36,619	1,627
Total capital expenditure	58,952	33,736

Increased capital expenditure mainly relates to investment under the Group's Protect and Grow plan, including the acquisition of properties in Australia and Singapore. The Network and Brand optimisation ("NBO") resulted in 24 sites being refreshed or enhanced with improvements commenced on a further 33 sites during the second half of the year (refreshing of funeral homes, chapel facilities and fitouts of new shop fronts). In addition, investment in business systems and operational practices has continued as part of the Operational Efficiencies work stream.

Dividends paid in the year totalled \$48.4 million (2016: \$43.2 million), including \$4.2 million (2016: \$4.5 million) for the on-market purchase of shares for the dividend reinvestment plan.

There were no shares required to be purchased during 2017 and 2016 by the InvoCare Deferred Employee Share Plan Trust in connection with the long-term, share-based incentives scheme. Share grants in 2017 were made using unvested, forfeited shares from prior years' grants.

Capital management

At 31 December 2017, the Group had drawn down \$244 million in borrowings (from total debt facilities of \$390 million) compared to \$254 million at 30 June 2017 and \$235 million at 31 December 2016. Net debt at 31 December 2017 was \$228 million which compared to the balance at 30 June 2017 of \$236 million and 31 December 2016 of \$223 million.

The Group has available debt facilities of \$390 million in the form of bi-lateral, multi-currency, revolver facilities, comprising a five-year tranche of \$270 million, maturing in July 2019, and a five-year tranche of \$120 million, maturing in December 2020.

The five-year tranche maturing in July 2019 is provided in equal \$67.5 million proportions by Australia and New Zealand Banking Group Limited ("ANZ"), Commonwealth Banking Group Limited ("CBA"), Westpac Banking Corporation ("Westpac") and HSBC Bank Australia Limited ("HSBC") or their New Zealand affiliates. The five-year tranche maturing in December 2020 is provided by ANZ (\$45 million), CBA (\$45 million) and HSBC (\$30 million).

The current facilities' drawings comprise AUD166.0 million, SGD31.5 million and NZD52.5 million. The foreign currency drawings naturally hedge investments in the 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 2017, being 1.88:1 and 11.96:1 respectively.

To maintain certainty over cash flows, the Group has policies limiting exposure to interest rate fluctuations. In accordance with the policy, at balance date, 75% of Australia and New Zealand debt principal was covered by floating to fixed interest rate swaps. Due to the level of stability of Singapore interest rates and their quantum, Singapore debt is not covered by interest rate swaps.

Directors' Report continued

The overall average, effective interest rate is currently 3.98% (2016: 4.6%), inclusive of fixed rates on hedged debt, floating rates on unhedged debt, margins (based on tranche tenor and leverage – currently averaging around 150bps), undrawn commitment fees and amortisation of establishment fees.

After an extensive review, together with specialist treasury consultants, the Group's debt facilities were renegotiated in the latter part of 2017 and is in place effective 16 February 2018 providing a revolving facility of \$200 million in multi-currencies for three years, a fixed \$150 million facility, not subject to repayment for five years, and a \$100 million fixed facility for ten years which is borrowed in Australian dollars without the need for hedging.

Headroom on the debt facilities of \$146.0 million and cash of \$15.5 million, provides \$161.5 million in available funds at 31 December 2017. This amount, together with operating cash flows, will provide further capacity to fund near-term growth opportunities.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods. Refer to note 1 (aa) in the accompanying financial report for the impact of these standards and the impact on the Consolidated Balance Sheet of transition to AASB 15: *Revenue from Contracts with Customers*.

Progress on Protect and Grow 2020

2020 Plan: Protect and Grow

As announced in February 2017, InvoCare has embarked on a four-year plan named “Protect and Grow”. It is estimated that the plan will cost \$200 million and its focus is to ensure that InvoCare’s strong operational platform, developed over more than 20 years, is maintained and improved; and that growth by acquisition is augmented by the significant opportunities identified through management’s operational and market review in the business’ existing network.

The Protect and Grow plan has three core work streams:

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

The implementation has started and will continue over a four-year period, allowing the company to monitor the performance of the investments and make adjustments where required. It is expected that the benefits associated with these investments will be evident from 2018 and that expected returns will be consistent with what the Group has earned over previous years.

Planning for the roll-out of the Network and Brand Optimisation was completed and the implementation commenced at the end of the peak winter trading period. All key deliverables were met for 2017 which saw 22 sites refreshed with a further 25 underway, two sites enhanced and eight others commenced. Four new shop fronts started operations, with 15 others in the fit-out stage at year end for opening during H1 2018.

Good progress has also been made with regard to the culture programme and operational efficiencies with all of the 2017 objectives delivered. The culture programme was developed by a group from within the operational business that represented all geographic regions, as well as many of the technical disciplines. The culture planning team launched the plan to the regional managers in H2 2017. With respect to the operational efficiencies work stream, after a detailed system (ERP) design & build phase, the company has just completed their third round of solution delivery reviews. Arrangements for user acceptance testing will be completed over the coming months in preparation for the current go-live date in H1 2018.

Funding the 2020 Plan

The \$200 million plan, as specified in the capital management section, is being funded by a combination of operating cash flow, additional debt and the sale of surplus properties, to best position the company to maintain a shadow credit rating equivalent to Investment Grade.

The sourcing of debt was undertaken in two steps. Firstly, InvoCare increased its existing facilities to \$390 million (up from \$290 million) in the second half of 2017. This allowed funding for the initial work and provided a sensible amount of headroom to allow for opportunistic acquisitions and to maintain a conservative liquidity buffer. Secondly, the longer term funding plan is now in place.

Outlook

The Company is well positioned to meet the challenge of changing customer preferences through its investment in the Protect and Grow plan and remains confident that the investment will deliver sustainable double digit operating EPS growth in the medium to longer term.

The short term outlook for the core pillars of growth is summarised below:

- **Demographics** – a reversion to the expected long-term growth trend (1.5% increase in deaths per annum);
- **Market Share** – a full year of NBO activity will impact the business in 2018, temporarily reducing market share before a period of stabilisation as building work is completed. The Protect and Grow investment is expected to drive market share growth beyond 2018, together with further acquisitions in Australia and New Zealand;
- **Case Average** – the roll-out of the NBO will allow for increases in line with historic trend and will permit additional increases, once the expanded range of products and services are in place to meet customers’ changing needs;
- **Operating Expenses** – continued focus on productivity;

The outlook for 2018 is based on continued improvement in the Group’s financial performance with low single digit growth forecast for operating EBITDA. The operating EPS is expected to be flat due to the higher cost of debt and NBO-related depreciation. The outlook is before taking into account the expected favourable impact from the adoption of the new revenue recognition accounting standard taking effect in 2018.

As is always the case, the outlook for 2018 is highly dependent on the number of deaths that occur in 2018, which can exhibit short-term volatility, despite the positive longer-term trend.

The Group’s capital expenditure in 2018 is expected to be in excess of \$100 million. The main investment planned is the NBO programme (refreshing of funeral homes, chapel facilities and fit-outs of new shop fronts), as well as continuing cemeteries development, motor vehicles and digital technology.

Acquisitions will continue to be a component of InvoCare’s growth, with an increased focus on the regional markets and also opportunistically in markets where we are not currently represented. A disciplined approach is applied to assessing acquisitions and there is no certainty as to the occurrence or timing of any acquisitions.

With respect to capital management, dividends are expected to continue to comprise at least 75% of operating earnings after tax and, for the full year, be at least equal to the 2017 full year dividend. Sufficient funds will be available from new debt facilities and free cash flows for capital expenditure and smaller “bolt on” acquisitions in the shorter term. If a more substantial opportunity arises, alternative funding, such as an equity raising or another long term note, would be considered.

The longer-term outlook is for continuing improvement in operating EBITDA performance and for double-digit operating EPS growth once the benefits of the Protect and Grow investments are realised.

Directors' Report continued



1. Mr Richard Davis, 2. Mr Bart Vogel, 3. Ms Joycelyn Morton, 4. Mr Martin Earp, 5. Mr Richard Fisher, 6. Ms Robyn Stubbs, 7. Mr Gary Stead

Significant events after the balance date

The Group's debt facilities were renegotiated in the latter part of 2017 and settled on 16 February 2018. The new facilities provide a revolving facility of \$200 million in multi currencies for three years, a fixed \$150 million facility not subject to repayment for five years and a \$100 million fixed note facility for ten years which is borrowed in Australian dollars without the need for hedging.

Other than this, there have been no significant events occurring after balance date which have significantly affected or may significantly affect either InvoCare's operations or the results of those operations or InvoCare's state of affairs in future financial years.

Environmental regulation and performance

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

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

Information on directors

Mr Richard Fisher AM MEd LLB
Chairman of the Board
Chair of Nomination Committee
Member of People, Culture & Remuneration Committee
Age 68 years
Appointed October 2003

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

Other Public Company Directorships held in the last three years: Nil
Interest in shares: 18,457 ordinary shares in InvoCare Limited

Mr Martin Earp MSc, BSc (Hons), MBA
Chief Executive Officer
Age 49 years
Appointed April 2015

Martin Earp joined InvoCare on 30 March 2015, was appointed as a Director on 13 April 2015 and assumed the role of CEO and Managing Director on 1 May 2015.

Prior to joining InvoCare Martin was the CEO of Campus Living Villages and was responsible for the strategic direction and operational leadership of the company. He worked for Transfield Holdings for over twelve years in a number of operational roles including CEO of the Australian Biodiesel Group (ASX listed

company), General Manager Airtrain (where he also served as a Director for eight years) and Business Development Manager for Airport Rail Link. Prior to this he worked for a London based transport consultancy advising on large infrastructure and investment deals.

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

*Other Public Company Directorships held in the last three years: Nil
Interest in shares: 41,618 ordinary shares in InvoCare Limited,
293,597 options in InvoCare Limited*

Mr Richard Davis BEc

Non-executive Director

Member of People, Culture & Remuneration Committee

Member of Finance, Capital & Investment Committee

Member of Nomination Committee

Age 62 years

Appointed February 2012

Richard Davis was appointed a non-executive director of InvoCare Ltd on 21 February 2012. Richard previously retired as InvoCare's Chief Executive Officer and Managing Director on 31 December 2008 after 20 years with InvoCare. For the majority of that time, he held the position of Chief Executive Officer and successfully initiated and managed the growth of the business through a number of ownership changes and over 20 acquisitions, including Singapore Casket Company (Private) Limited, the Company's first international acquisition.

Richard is currently serving as Chairman of Singapore Casket Company (Private) Limited. Prior to joining the funeral industry, Richard worked in venture capital and as an accounting partner of Bird Cameron. Richard holds a Bachelor of Economics from the University of Sydney.

Other Public Company Directorships held in the last three years:

Australian Vintage Limited (appointed non-executive director in May 2009 and chairman in May 2015)

Monash IVF Group Limited (appointed non-executive director and chairman in June 2014)

Interest in shares: 436,607 ordinary shares in InvoCare Limited

Mr Gary Stead BCom LLB MBA

Non-executive Director

Chair of Finance, Capital & Investment Committee

Member of Audit, Risk & Compliance Committee

Member of Nomination Committee

Age 60 years

Appointed September 2014

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

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

*Other Public Company Directorships held in the last three years: Nil
Interest in shares: 12,266 ordinary shares in InvoCare Limited*

Ms Jorcelyn Morton BEc FCA FCPA FIPA FGIA FAICD

Non-executive Director

Chair of Audit, Risk & Compliance Committee

Member of Finance, Capital & Investment Committee

Member of Nomination Committee

Age 58 years

Appointed August 2015

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

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

Former ASX listed non-executive director roles include Crane Group Limited, Count Financial Limited and Chair of Noni B Limited. Jorcelyn holds a Bachelor of Economics from the University of Sydney.

Other Public Company Directorships held in the last three years:

Thorn Group Limited (appointed non-executive director in October 2011 and Chair from 2014 to 2018)

Argo Investments Limited (appointed non-executive director in March 2012)

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

Interest in shares: 8,454 ordinary shares in InvoCare Limited

Ms Robyn Stubbs BBus MSc GAICD

Non-executive Director

Member of People, Culture & Remuneration Committee

Member of Finance, Capital & Investment Committee

Member of Nomination Committee

Age 54 years

Appointed January 2017

Robyn Stubbs was appointed a non-executive director of InvoCare Limited on 1 January 2017. She has more than 25 years experience in senior marketing, sales, leasing and broader management roles with large and complex organisations, including Stockland, Ten Network, Fairfax Media, Lend Lease and Unilever.

Robyn is a non-executive director of the responsible entity for ASX listed Aventus Retail Property Fund and is a Board Member of Lifeline Northern Beaches Incorporated.

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

Other Public Company Directorships held in the last three years:

Aventus Retail Property Fund (appointed non-executive director from 16 October 2015)

Interest in shares: 1,500 ordinary shares in InvoCare Limited

Directors' Report continued

Mr Bart Vogel BCom FCA GAICD

Non-executive Director

Member of Audit, Risk & Compliance Committee

Member of Finance, Capital & Investment Committee

Member of Nomination Committee

Age 60 years

Appointed October 2017

Bart Vogel was appointed a non-executive director of InvoCare Limited on 22 September 2017 effective from 1 October 2017.

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

Bart is currently a non-executive director of listed companies Infomedia Ltd (where he serves as Chairman), Salmat Limited and Macquarie Telecom Limited. In addition to his listed company directorships, Bart is a director of BAI Communications and of the Childrens Cancer Institute Australia.

He holds a Bachelor of Commerce (Honours), is a Fellow of the Institute of Chartered Accountants and a graduate of the Australian Institute of Company Directors.

Other Public Company Directorships held in the last three years:

Salmat Limited (appointed non-executive director in May 2017)

Infomedia Limited (appointed non-executive director in August 2015 and chairman in August 2016)

Macquarie Telecom Group Limited (appointed non-executive director in July 2014)

Sedgman Limited (January 2015 to November 2015)

Interest in shares: Nil

Meetings of directors

Details of the meetings attended by each director during the year ended 31 December 2017 are set below.

	Board		Audit, Risk & Compliance Committee		Finance, Capital & Investment Committee		People, Culture & Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Non-executive Directors										
Richard Fisher	11	11	4*	4	4*	6	5	5	2	2
Christine Clifton	1	2	1	1	-	-	1	1	1	1
Richard Davis	11	11	4*	4	6	6	5	5	2	2
Gary Stead	11	11	4	4	6	6	1*	5	1	2
Joycelyn Morton	11	11	4	4	6	6	1*	5	2	2
Robyn Stubbs	11	11	4*	4	5	5	5	5	2	2
Bart Vogel	4	4	1	1	1	1	2*	2	-	-
Executive Director										
Martin Earp	11	11	4*	4	6*	6	5*	5	-	-

A = number of meetings attended.

B = number of meetings held during the time the director held office.

* = includes meetings attended as an invited guest of the committee where the director was not a member of the relevant committee.

Robyn Stubbs and Bart Vogel were appointed as Directors effective from 1 January 2017 and 1 October 2017 respectively. Christine Clifton resigned as a Director effective 28 February 2017.

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

Company Secretary

Mr Phillip Friery BBus CA

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

Interest in shares: 41,075 ordinary shares in InvoCare Limited, 33,441 options in InvoCare Limited

Chief Financial Officer

Ms Josée Lemoine BCom / Chartered Professional Accountants of Canada

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

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

Josée holds a Bachelor of Commerce from the Hautes Etudes Commerciales (HEC) at the University of Montréal and is a member of the Chartered Professional Accountants of Canada (formerly known as the Canadian Institute of Chartered Accountants).

Interest in shares: 6,132 ordinary shares in InvoCare Limited, 60,829 options in InvoCare Limited

Corporate Governance Statement

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

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

- Graeme Rhind, Chairman of New Zealand (“Chair New Zealand”);
- Wee Leng Goh, Chief Executive Officer of Singapore Casket Company (“CEO Singapore”);
- Josée Lemoine, Chief Financial Officer (“CFO”).

During the year Greg Bisset, formerly Chief Operating Officer, resigned effective from 30 September 2017. Effective from 5 February 2018 Damien MacRae has been appointed Chief Operating Officer of Australia and New Zealand.

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

Principle 1 – Lay Solid Foundations for Management and Oversight

Functions of the Board and senior executives

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

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

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

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

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

Board and senior executive appointments

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

Company Secretary

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

Diversity

InvoCare released its Inclusion Policy during February of 2016 and reviewed this policy in July 2017, which is available on its website: www.invocare.com.au. The Inclusion Policy provides a framework that reinforces the Company’s long held commitment to diversity, with a focus on creating an inclusive organisational culture where all individuals feel respected and valued for their uniqueness. The nature of InvoCare’s businesses means that its employees come into daily contact with families from every walk of life and facet of society so a focus on inclusion makes a direct contribution to the business’s ongoing success, as well as being in line with community and stakeholder expectations. From a gender perspective, women currently comprise 29% (2016: 43%) of the Board, 43% (2016: 36%) of the group executive and 36% (2016: 40%) of Australian management. InvoCare’s current focus is on specific actions that will achieve overall gender equality at the Australian management level by the end of 2020, that is, a minimum of 45% management roles will be held by either gender. The Australian entity is a relevant employer under the terms of the Workplace Gender Equality Act.

Directors’ performance evaluation

After many years of established practice of regular internal reviews, in late 2017 the Board engaged an independent specialist consultancy, Boardroom Partners, to review the performance of the Board, its Committees and its Directors.

The review objectives included:

- providing an overall assessment of the performance of the Board, including its responsibilities and governance arrangements;
- suggesting opportunities for possible improvements to the role, composition, dynamics, operations, practices and policies of the Board;
- identifying the individual strengths and development opportunities of the non-executive directors, with an emphasis on improvement and overall effectiveness; and

Corporate Governance Statement continued

- assessment and evaluation of the skills, competencies and contributions made by each Director to the Board to assist succession planning.

The review analysis and recommendations were based on a combination of on-line surveys, Director self and peer assessments, interviews with each Director and selected senior executives, current good practice standards, a review of InvoCare documents and comparisons with other boards. Written reports were provided to the Board and to each individual non-executive director.

The review confirmed the Board, its Committees and Directors are functioning effectively. It also confirmed the significant transitions the Board has steered through since listing and the changes made have ensured continual growth. A number of opportunities have been highlighted for Directors, both as a group and individually. These include:

- ensuring adequate focus on strategy and successful roll out of new initiatives;
- balancing governance and performance responsibilities through agenda re-organisation and streamlining Board papers;
- ongoing regular review and discussion of the current skill and experience mix and its fit for the future; and
- boardroom dynamics improvements to encourage the best possible contribution from all Directors and greater focus on team development.

The Board has considered the review findings and the recommendations will be addressed during the course of 2018.

Senior executive evaluation

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

The People, Culture & Remuneration Committee evaluate 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, the Board monitors the key performance indicators and strategic plan for the Group, at least quarterly, which provides the opportunity to more regularly evaluate the performance of senior executives outside the annual review process.

Principle 2 – Structure the Board to Add Value

Board composition

The Board currently comprises seven directors, being six non-executive independent directors (including the Chairman) and one executive director, being the CEO. Any director appointed to fill a casual vacancy, except for the CEO, must stand for election by shareholders at the next Annual General Meeting. In addition, one-third of the non-executive directors, and any other director who has held office for three years or more since last being elected,

must retire from office and, if eligible, may stand for re-election. The CEO is exempt from retirement by rotation and is not counted in determining the number of directors to retire by rotation.

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

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

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

Nomination Committee

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

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

In terms of Board succession planning and composition, two new directors were appointed in 2017, being Robyn Stubbs and Bart Vogel. These appointments were made to provide additional expertise and / or replace the skills of departing directors. Christine Clifton resigned as a director on 28 February 2017. Richard Fisher has advised the Board he will retire in the course of 2018. Planning for the Chair's succession is well advanced. During 2018, having observed market practices and trends, the Board will be considering the merits of limiting non-executive directors to a maximum of three terms each of three years duration, unless there are compelling reasons for longer tenure.

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

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

Board skills matrix

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.

Each Director brings a range of personal and professional experiences and expertise to the Board. The Board seeks to achieve an appropriate mix of skills, tenures and diversity, including a deep understanding of the industry in which it operates, as well as corporate management and operational, financial and safety matters. Directors devote significant time and resources to the discharge of their duties.

The current matrix is summarised in the following table:

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

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 24 of the Directors' Report.

Directors' access to independent professional advice and Company information

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

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

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

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

Directors' induction

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

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

Directors' continuing education

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

Principle 3 – Act Ethically and Responsibly

Code of Conduct

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

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

This code is provided to all directors and employees as part of their induction process and compliance is reviewed on a regular basis. It is

Corporate Governance Statement continued

subject to ongoing review and assessment to ensure it continues to be relevant to contemporary conditions.

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

Principle 4 – Safeguard Integrity in Corporate Reporting

Audit, Risk & Compliance Committee

The Audit, Risk & Compliance Committee provides assistance to the Board in fulfilling its corporate governance, risk management and oversight responsibilities in relation to the Group's financial reporting, internal control structure, overseeing IT and cyber security and the internal and external audit functions.

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

The Audit, Risk & Compliance Committee comprises three independent non-executive directors and is chaired by Joycelyn Morton. Ms Morton is an FCPA, FCA and FGIA and brings a wealth of financial and taxation experience to the Committee. Other members are Gary Stead and Bart Vogel. The number of meetings held during the year and the individual attendances at those meetings is set out in the Information on Directors section of the Directors' Report on page 24.

The external auditors met with the Audit, Risk & Compliance Committee during the year without management being present prior to the release of the full-year and half-year results. The head of internal audit meets with the Chair of the Audit, Risk & Compliance Committee privately at least once per annum and on an ad hoc basis when necessary.

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

Assurance

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

Auditor attendance at the Annual General Meeting

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

Principle 5 – Make Timely and Balanced Disclosure

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

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

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

Principle 6 – Respect the Rights of Shareholders

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

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

Additionally, all shareholders have the right to access details of the holdings, provide email address contacts and make certain elections via the Company's share registry Link Market Services Limited by accessing the website: 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, 18 May 2018 at the offices of PricewaterhouseCoopers, One International Towers, Waterman Quay, Barangaroo.

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

Principle 7 – Recognise and Manage Risk

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

Audit, Risk & Compliance Committee

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

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

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

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

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

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

Finance, Capital & Investment Committee

The Finance, Capital & Investment Committee provides assistance to the Board in determining the appropriate capital structure for the Group including the management of interest rate and foreign currency risks, the deployment of capital and the approval of substantial capital expenditure projects, reviewing and approving acquisitions and monitoring the returns from prepaid funeral funds.

During the year the Committee was heavily involved with the details of the 2020 Plan: Protect and Grow with significant time spent assessing and approving the detailed Network and Brand Optimisation project. The Committee also oversaw the refinancing of the Group's long-term debt to enable the 2020 Plan to be appropriately funded.

Internal control

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

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

Principle 8 – Remunerate Fairly and Responsibly

People, Culture & Remuneration Committee

InvoCare's remuneration policy ensures that remuneration packages properly reflect employees' duties and responsibilities,

and that remuneration is competitive in attracting, retaining and motivating people of appropriate calibre. The People, Culture & Remuneration Committee reviews and makes recommendations to the Board on senior executive remuneration and appointment and on overall Group remuneration and benefits policies.

The People, Culture & Remuneration Committee comprise three independent non-executive directors with Richard Davis as Chair and Richard Fisher and Robyn Stubbs as members. The number of meetings held during the year and the individual attendances at those meetings is set out in the Information on Directors section of the Directors' Report on page 26.

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

Remuneration structure

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

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

Senior executive remuneration and other terms of employment are reviewed annually by the Committee, having regard to individual and Group performance, contribution to long-term growth, relevant comparative information, and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses, long-term incentives and fringe benefits. The Remuneration Report which begins on page 32 provides detailed information about the current remuneration practices and the levels of remuneration, including recent changes to long term incentive arrangements.

Share Trading Policy

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

This policy applies to all senior staff, particularly managers and other senior employees, such as finance team members, who have access to information that is not generally available. In addition, it applies to all 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 Remuneration Report

The Remuneration Report summarises the key compensation policies and practices for the year ended 31 December 2017, 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. In addition, this report sets out the key changes to the remuneration structure for 2018.

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

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

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

A. Directors and key management personnel

For the purposes of this report, the key management personnel ("KMP") are those persons having authority and responsibility for planning, directing and controlling the activities of the Group or a major operation within the Group and are as follows:

Non-executive directors

Richard Fisher (Chairman)
Richard Davis
Joycelyn Morton
Gary Stead
Robyn Stubbs
Bart Vogel

Christine Clifton ceased to be non-executive director on 28 February 2017.

Other key management personnel

Martin Earp (Managing Director and Chief Executive Officer)
Josée Lemoine (Chief Financial Officer)
Wee Leng Goh (Chief Executive Officer Singapore)
Graeme Rhind (Chairman of New Zealand)

A Group Executive Team ("GET") comprising Martin Earp's direct reports continues to operate. The Board has determined that not all members of the Group Executive Team are considered KMP, as they do not have responsibility for planning, directing and controlling a substantial part of the operations of InvoCare. Periodically changes are made to the Group Executive Team to reflect the evolving strategy and structure of the Company. The use of the term Senior Executives in this report means members of the Group Executive Team.

Since the 2016 Annual Report, Greg Bisset ceased to be executive KMP on 30 September 2017.

Damien MacRae was appointed as the new Chief Operating Officer for Australia and New Zealand on 5 February 2018.

B. Executive remuneration policy and framework

Policy

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

InvoCare's remuneration policy is that:

- for each role, the balance between fixed and variable components should reflect market conditions;
- individual objectives should reflect the need for sustainable outcomes;
- all variable pay should be tightly linked to measurable personal and business performance;
- total compensation should be market competitive and be reviewed annually, with no component guaranteed to increase; and
- the CEO's and Senior Executives' total remuneration is benchmarked to comparable positions in comparable size companies (taking into account sales revenue, market capitalisation and industry), with the value of the incentives included in total remuneration based on amounts that can be achieved when individual and overall Group performance targets are met.

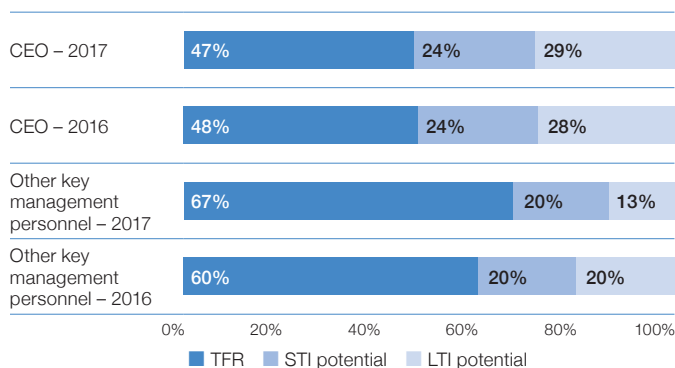
In accordance with InvoCare's Share Trading Policy, senior managers are prohibited from trading the Company's shares other than during specified trading windows, or with approval in exceptional circumstances, provided they do not possess inside information. In addition, senior managers are not permitted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

Remuneration structure

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

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

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



No director or other key management personnel has, at 31 December 2017 or during or since the end of the financial year, had any loans to or from the Group. The CEO and Senior Executives hold options over unissued shares in the Company under the terms of the LTI scheme introduced during 2016. Section G provides detail for each KMP.

Short-term incentives (“STI”)

Purpose

STIs are awarded for achievement of pre-determined financial and non-financial objectives. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for senior executives to deliver annual business plans that will lead to sustainable superior returns for shareholders. Target-based STIs are intended to modulate the cost to the Company of employing senior executives, such that risk is shared with the executives themselves and the cost to the Company is reduced in periods of poor performance.

Measurement Period

The Company’s financial year.

Award Opportunities

The STI opportunity for 2017 was up to a maximum of 51.4% of TFR for the CEO and from 19.9% up to a maximum of 40.9% for the other senior executives.

Key Performance Indicators (“KPIs”) Weighting and Performance Goals

FY 2017 Invitations to participate in the STI were based on a number of KPIs set for each executive, and summarised as follows and showing the weighting for Target performance:

CEO

- Financial Indicators – 65%
- Culture programme roll out – 15%
- Network and Brand Optimisation roll out – 20%

Group Executive Team – Functional

- Financial Indicators – 50%
- Market Share – 10%
- Culture – 10%
- Project Execution – 30%

General Manager Team - Operational

- Financial Indicators – 50%
- Market Share – 20%
- Operational Projects – 30%

Financial targets are set with reference to the annual budget for the financial year.

In the case of EBITDA and market share components in the STI, the hurdle rate is set at 95% of target EBITDA and the target increase in market share. Achievement between 95% - 99.99% will result in a payment of 50% for the relevant component. Achievement at 100% and above will result in a payment of 100% of the relevant component. There is no overachievement in the STI construct for Group Executive roles.

Other levels of staff also received short-term objective based compensation based on measurable and pre-determined targets. Short term incentives for other levels of staff may include key performance indicators such as average revenue per case, sales of prepaid contracts, the management of labour costs, net promoter score results and debtors’ days outstanding.

Award Determination and Payment

Incentives are payable in cash in the first quarter of each year after the completion of the audit of the results for the previous year ended 31 December. The People, Culture & Remuneration Committee considers that STI incentives are awarded for achievement of key performance criteria for a particular financial year, without payment for outperformance, and that no part of the incentive should be deferred for payment in a later year. The Committee is of the view that the share-based LTI, described in more detail below, provides incentive for outperformance over the longer term, encourages Executives to remain employed with the Group and ensures alignment with shareholder interests.

Cessation of Employment During a Measurement Period

In the event of cessation of employment due to dismissal for cause, all entitlements in relation to the Measurement Period are forfeited. Where an executive’s employment is terminated by the Company for any reason other than cause, the relevant executive may receive a pro-rated portion of their STI bonus opportunity based on the portion of the performance year served and the bonus paid or payable in respect of the immediately preceding financial year. In the case of cessation of employment due to resignation, all entitlements in relation of the Measurement Period are forfeited.

Long-term incentives (“LTI”) – 2016 and 2017

Purpose

The Performance Long Term Incentive Plan (PLTIP) is aimed at attracting, rewarding and retaining high performing executives who contribute to the overall medium and long term success of InvoCare.

Performance Period and Vesting Details

Vesting of the **Performance Rights** and **Options** will be tested on the second, third and fourth anniversary of their **Grant** and if, after the fourth anniversary, not all **Performance Rights** and **Options** have **Vested** they will again be tested on the fifth anniversary. This is to allow for the impact that the number of deaths has on the Group’s annual result, which is outside the control of management particularly given the fixed cost nature of the business.

If the relevant targets are achieved the **Performance Rights** and **Options** will **Vest** and in the case of vested **Performance Rights**, the employee will be provided with InvoCare shares, satisfied either by a new issue or by on-market purchase. In the case of vested options, the exercise period is from the date of grant until 10th anniversary of the grant (e.g. for 2017 awards the end of option life will be February 2027). In order for the **Performance Rights** and **Options** to **Vest** the employee must be employed at the date of **Vesting** unless the termination of employment has been deemed to be a **Good Departure**.

Remuneration report continued

Good Departure means:

- Bona Fide Redundancy, death, Retirement or TPD;
- the non-renewal by InvoCare, of a fixed term employment contract; or
- reasons determined by the Board to be unrelated to performance, which for example may include:
 - changing business or operational circumstances (such as where a role evolves to require a different set of skills to those possessed by an employee who has performed satisfactorily in his or her role), or
 - sudden, tragic, severe and unavoidable personal, family, health or other hardship issues experienced by the employee (for example, an employee is required as a personal carer or suffers severe stress).

Plan Features

- Selected high performing or high potential senior managers by invitation and as approved by the Board;
- the awards are performance shares rights ("PSRs") or options;
- there is a return on capital gateway before any awards meeting performance conditions will vest;
- no dividends will be paid on unvested awards; and
- there will be no voting rights.

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

Award Opportunities

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

The value of LTI award offered in 2017 was up to a maximum of 60% of TFR for the CEO and up to a maximum 40% for the other Senior Executives.

Grant Determination

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

The number of options is calculated based upon the value of LTI to be awarded in options divided by the option valuation at the award date. This option value is determined by an independent actuary using a Black Scholes valuation methodology. The valuation for allocation excludes dividends and does not incorporate any discount relating to the performance and tenure conditions.

The compound growth per annum in normalised Earnings per Share ("EPS") is determined over the vesting period. However, a 'gateway' condition must be met before any PLTIP awards can vest. The gateway requires a minimum level of Return on Invested Capital ("ROIC") greater than the Weight Average Cost of Capital ("WACC") (refer to EPS performance conditions summarised below

for details of the ROIC gateway and stretch targets). This is a safety net to ensure that capital is being employed efficiently and earnings growth is translating to shareholder value. ROIC is defined as the annual operating earnings (excluding net finance costs and after deducting tax) divided by the average invested capital during the year (being the average of the beginning and end of year balances of total assets less surplus cash less non-interest bearing liabilities).

"Normalised earnings" means reported profit as adjusted:

- to remove the impacts of any gains or losses arising from the sale, disposal or impairment of non-current assets;
- to maintain consistency in accounting policies across the respective vesting periods for each grant; and
- for PLTIP awards from February 2017:
 - to reflect constant currency; and
 - to remove impacts of non-cash movements in prepaid contracts and associated funds under management.

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

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

- InvoCare is a stable business without a true comparator peer or group to benchmark performance against within Australia;
- relative TSR incentives tend to favour executives in companies with higher levels of inherent share price volatility than InvoCare, which has lower volatility in both share price and earnings than other ASX listed entities or market indices;
- InvoCare has relatively small market capitalisation and its growth may appear constrained relative to an index or selected peer group;
- the vagaries of equity markets are not controllable by InvoCare's Board or its executives and introducing TSR would detract from the clear and proven organisational performance culture which already exists within InvoCare; and
- earnings per share growth is aligned with InvoCare's strategic objectives and, together with the introduction of a ROIC gateway, more closely reflects management performance and success in incrementally creating value through good decision making and sustained and improving performance over time;
- if the compound EPS growth performance conditions are not met at the vesting date, the unvested LTI awards remain available until February in the fifth year after grant and may vest based on the compound annual growth from the base date for the grant to 31 December 2017. Unvested awards at the fifth anniversary of the grant are automatically forfeited.

Cessation of Employment During a Measurement Period

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

In general, should a participant cease employment as a result of resignation or termination in circumstances the Board determines as related to their performance, all unvested equity awards held by the participant will lapse. In exceptional circumstances, the Board has the discretion to determine the extent to which all or part of any unvested equity may vest and the specific performance testing to be applied.

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

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

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

Change of Control

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

Clawbacks

Payments or vesting related to performance conditions associated LTI are subject to a clawback policy. The Group will seek to clawback all or part of an executive's incentives that has already

been paid to ensure the executive has not been inappropriately awarded in circumstances including:

- a material misstatement or omission in the Group's financial statements;
- if actions or inactions seriously damage the Group's reputation or put the Group at significant risk; and/or
- a material abnormal occurrence results in an unintended increase in the award.

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

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

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

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

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

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

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

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

Remuneration report continued

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

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

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

LTI share grant year	Target annual compound normalised EPS growth from 1 January of grant year	Normalised EPS on 1 January of grant year	Performance condition testing date and vesting outcome
2012	7% to 10%	34.4 cents	February 2014 – 39% of the first 1/3 rd tranche vested February 2015 – 100% vesting of second and unvested first tranches February 2016 – 91% vesting of third 1/3 rd tranche vested February 2017 – 100% of all unvested shares vest
2013	7% to 12%	38.7 cents	February 2015 – 100% of first 1/3 rd tranche vested February 2016 – 54% of second 1/3 rd tranche vested February 2017 – 100% vesting of third tranche and unvested second tranche shares February 2018 – not required
2014	7% to 10%	39.7 cents	February 2016 – 100% of first 1/3 rd tranche vested February 2017 – 100% of second 1/3 rd tranche vested February 2018 – 100% of third 1/3 rd tranche vested February 2019 – not required
2015	7% to 10%	49.1 cents	February 2017 – 100% of first 1/3 rd tranche vested February 2018 – 100% of second 1/3 rd tranche vested February 2019 – to be determined February 2020 – (if required)
2016	7% to 12%	49.8 cents	February 2018 – 85% of first 1/3 rd tranche vested for grants excluding funds under management and 100% of first 1/3 rd tranche vested for grants including funds under management February 2019 – to be determined February 2020 – to be determined February 2021 – (if required)
2017	7% to 12%	61.6 cents	February 2019 – to be determined February 2020 – to be determined February 2021 – to be determined February 2022 – (if required)

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

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

Long-term incentives ("LTI") remuneration structure changes for 2018

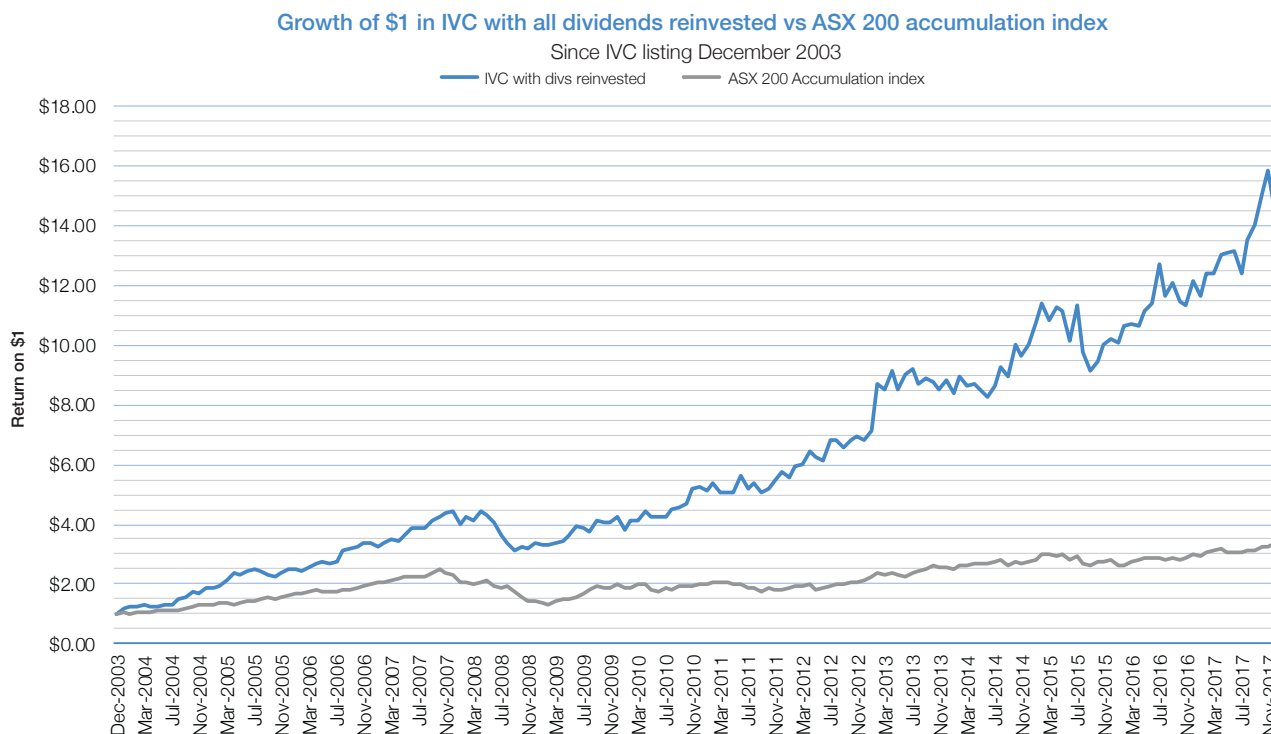
The key changes to the LTI remuneration structure for 2018 grants are:

- The vesting period will be 4 years with 50% able to be earned after 3 years;
- The minimum compound per annum Normalised Earnings Per Share ("EPS") growth rate is increased to 8% per annum (up from previous 7%), resulting in 30% vesting increasing on a pro-rata basis to 100% at EPS growth of 12% or more;
- The non-cash movements for Guardian Plan prepaid contracts and funds under management will now be excluded from Normalised Earnings utilised in calculating vesting for the CEO, CFO and Group Executive Capital Management; and
- Providing a participant has at least three years employment with InvoCare and has not engaged in Proscribed Conduct (means serious and wilful misconduct, wilful disobedience, gross negligence or incompetence, disqualification under Corporations Law or serious breaches of contract of employment), the Board will allow unvested awards to continue on foot and vest subject to the original terms

and performance conditions attaching to the relevant grants, regardless of whether or not the participant is employed by InvoCare at the relevant vesting time.

C. Relationship between remuneration and InvoCare's performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with at risk remuneration linked to that performance. The remuneration approach, elements and mix has delivered an annualised 20.9% return for shareholders between listing in December 2003 and the end of 2017. As depicted by the following graph, the growth of an investment of \$1 in InvoCare at listing exceeds the ASX200 growth over that period.



Based upon achievements in 2017, the People, Culture & Remuneration Committee determined the CEO and Senior Executives achieved an average 68% of their target STI opportunity. The percentage of the available STI cash bonus that was payable for the financial year and the percentage that was forfeited because the person or the consolidated entity did not meet the service and performance criteria is set out below:

Name	Cash STI bonus		Achievement			
	Payable %	Forfeited %	Financial	Non-financial		
			EBITDA	Market share	Culture	Project execution
Martin Earp	69	31	40	-	14	15
Josée Lemoine	67	33	38	-	5	24
Greg Bisset	55	45	-	-	-	55
Wee Leng Goh	89	11	60	-	5	24
Graeme Rhind	-	-	-	-	-	-
Average	68	32				

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

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

Directors' Report continued

Remuneration report continued

In addition to STI, upon satisfying service and performance conditions, the Senior Executives also received the benefit of the vesting of LTI awards made in prior years. Further details are set out on page 42 under the heading "G. Share-based Compensation".

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

	2017	2016	2015	2014	2013
Reported profit after tax (\$m)	\$97.4m	\$70.9m	\$54.8m	\$54.5m	\$48.9m
Basic earnings per share (cents)	88.8c	64.7c	50.1c	49.8c	44.7c
Operating earnings after tax (\$m) (note 1)	\$63.5m	\$57.4m	\$53.0m	\$49.5m	\$45.8m
Normal dividends (\$m)	\$50.6m	\$46.8m	\$41.8m	\$40.1m	\$37.9m
Normal dividends per share (cents)	46.0c	42.5c	38.0c	36.5c	34.5c
Dividend payout of operating earnings	80%	82%	80%	81%	83%
Total return per share (\$) (note 2)	\$2.67	\$2.25	\$0.28	\$1.41	\$2.60
Total shareholder return (%) (note 2)	19%	19%	2%	13%	30%
Share price – 31 December	\$16.10	\$13.87	\$12.01	\$12.10	\$11.04

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

D. Non-executive director remuneration policy

Non-executive directors

Fee pool and other fees

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

This remuneration of the non-executive directors is determined by the Board.

During the 2017 financial year, annual fees for non-executive directors were \$270,600 for the Chair of the Board and \$135,300 for each member of the other non-executive directors with an additional \$11,275 for the Chair of the Audit, Risk & Compliance Committee.

Using market information, the Board has determined the 2018 fees will be \$277,370 for the Chair and \$138,680 for each of the other non-executive directors. The Chair of the Audit, Risk & Compliance Committee will be paid an additional annual fee of \$11,560 for the additional work associated with the Committee. The aggregate of these fees is below the current pool limit.

The base fees exclude any remuneration determined by the directors where a director performs additional or special duties for the Company. If a director performs additional or special duties for the Company, they may be remunerated as determined by the directors and that remuneration can be in addition to the limit mentioned above.

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

Equity participation

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

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

During 2009, the Board resolved that with effect from 1 January 2009, non-executive directors of InvoCare Limited be required to acquire a minimum equity interest in the Company equivalent in value to 50% of their annual director's fee applying at the time of their appointment as a director of the Company and that directors be allowed up to three years to accumulate the required shareholding. At the date of this report, with the exception of Bart Vogel who was appointed on 1 October 2017, all non-executive directors have equity interests in the Company meeting this requirement.

Directors' equity holdings are set out under the heading Information on Directors starting on page 24 of the Directors' Report and in Note 7: Key Management Personnel Disclosures on page 72 of the notes to the financial statements.

Retiring allowances

No retiring allowances are paid to non-executive directors.

Superannuation

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

E. Details of Remuneration

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

Year	Short-term employee benefits				Post employment benefits	Other long-term benefits	Share-based payments			Total Statutory Remuneration Note 9	Executives' Actual Remuneration Note 10
	Cash salary or fee Note 1	Short-term cash bonus Note 2	Non-monetary benefits Notes 3	Other Notes 4	Super-annuation Note 5	Long service leave Note 6	LTI shares at risk Note 7	LTI shares forfeited Note 8			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors											
Richard Fisher (Chairman)	2017	247,123	-	-	-	23,477	-	-	-	270,600	
	2016	241,096	-	-	-	22,904	-	-	-	264,000	
Christine Clifton (resigned 28 February 2017)	2017	20,594	-	-	-	1,956	-	-	-	22,550	
	2016	120,548	-	-	-	11,452	-	-	-	132,000	
Richard Davis	2017	123,562	-	-	-	11,738	-	-	-	135,300	
	2016	120,548	-	-	-	11,452	-	-	-	132,000	
Gary Stead	2017	123,562	-	-	-	11,738	-	-	-	135,300	
	2016	120,548	-	-	-	11,452	-	-	-	132,000	
Joycelyn Morton	2017	133,858	-	-	-	12,717	-	-	-	146,575	
	2016	130,594	-	-	-	12,406	-	-	-	143,000	
Robyn Stubbs (appointed 1 January 2017)	2017	123,562	-	-	-	11,738	-	-	-	135,300	
	2016	-	-	-	-	-	-	-	-	-	
Bart Vogel (appointed 1 October 2017)	2017	30,890	-	-	-	2,935	-	-	-	33,825	
	2016	-	-	-	-	-	-	-	-	-	
Executive directors											
Martin Earp	2017	775,734	308,898	66,185	-	29,351	27,196	632,813	-	1,840,177	1,264,453
	2016	764,991	405,211	55,170	-	26,941	5,351	309,929	-	1,567,593	1,259,146
Other key management personnel											
Josée Lemoine (note 11)	2017	426,832	119,700	-	-	19,832	8,819	115,851	-	691,034	566,364
	2016	139,499	66,428	7,298	-	8,651	680	29,652	-	252,208	217,894
Phillip Friery (note 11)	2017	-	-	-	-	-	-	-	-	-	-
	2016	306,510	120,097	35,730	-	17,877	14,222	138,695	-	633,131	561,952
Greg Bisset (resigned 30 September 2017)	2017	278,291	80,218	82,407	121,990	22,500	-	147,121	-	732,527	629,406
	2016	389,297	125,704	26,723	-	30,001	12,987	166,832	-	751,544	689,546
Wee Leng Goh (note 12)	2017	266,025	76,293	7,755	-	16,380	-	123,359	-	489,812	437,743
	2016	274,704	50,679	5,790	-	14,573	-	91,006	-	436,752	403,290
Graeme Rhind (note 13)	2017	215,155	-	22,976	-	13,205	-	67,372	-	318,708	313,939
	2016	223,544	35,417	20,339	-	11,376	-	93,861	-	384,537	336,357

Remuneration report continued

Notes to Remuneration Table:

1. The total cost of fees and salary, including annual leave taken and the increase or decrease in the annual leave provision applicable to that individual.
2. The amount to be settled in cash relating to performance of the Group and the individual for the financial year from 1 January to 31 December. The proportions of STI bonuses awarded and forfeited are set out in section C of this Remuneration Report.
3. The cost to the Company, including any fringe benefits tax, for the provision of fully maintained cars, and other items.
4. Other benefits include termination benefits paid to Mr Bisset in 2017.
5. Contributions to superannuation.
6. Long service leave accruals in accordance with relevant Australian Accounting Standards.
7. The amount amortised as an expense in the financial year in accordance with Australian Accounting Standards which require the value of long-term share-based incentive grants to be amortised as an expense over the relevant future vesting periods. The amounts shown relate to unvested share and rights grants made in the current and past financial years. Subject to meeting the vesting conditions of the grants, the shares or rights will vest, or be forfeited, in future financial years.
8. 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.
9. Total statutory remuneration is calculated and disclosed in accordance with the Corporations Act and Australian Accounting Standards.
10. For information purposes and comparison with the total statutory remuneration, this column shows the executives' remuneration which actually crystallised during the year, including salary, superannuation, leave entitlements paid and accrued, short-term incentives payable in respect of the financial year, the market value at vesting date of long-term incentive shares granted in previous years which vested during the year and other benefits, including termination benefits.
11. Phillip Friery stepped down from his position as Chief Financial Officer on 8 September 2016 and is no longer key management personnel. On this date, Josée Lemoine was appointed as Chief Financial Officer.
12. Wee Leng Goh, Chief Executive Officer of Singapore Casket Company, received total remuneration of SG\$489,849 (2016:SG\$448,630), which has been converted to Australian dollars at the average exchange rate for the year of 0.9446 (2016: 0.9556).
13. Graeme Rhind, Chairman of New Zealand, received total remuneration of NZ\$381,786 (2016:NZ\$410,455), which has been converted to Australian dollars at the average exchange rate for the year of 0.9265 (2016: 0.9618).

F. Service Agreements

Chief Executive Officer

Remuneration and other terms of employment for the CEO, Martin Earp, have been formalised in a service agreement, which may be updated from time to time. The service agreement specifies that employment commenced on 30 March 2015, the role of CEO was assumed on 1 May 2015 and, subject to agreement to extend the term, the contract was due to end on 30 March 2018. On 7 February 2018, the service agreement was varied, effective from 1 April 2018, to extend the end date to 30 March 2021, amend the LTI and STI arrangements and to include a non-compete condition for twelve months after cessation of employment. The agreement provides for provision of salary, superannuation, short-term performance related cash bonuses, long-term performance related share-based bonuses and other benefits.

The total remuneration package is reviewed annually and the details of the service agreements that are effective at 31 December 2017 and the new agreement, effective from 1 April 2018, are provided below:

	Existing agreement ending on 30 March 2018	New agreement effective 1 April 2018
Total fixed remuneration (ie. annual base salary, superannuation and motor vehicle) ("TFR"):	\$867,825	\$889,520
Short-term incentive bonus of up to (being 51.4% TFR):	\$446,062	\$457,213
LTI award under the PLTIP to the value of being 60.0% of TFR (new agreement 85.0% of TFR):	\$520,695	\$756,092

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

- EBITDA achievement (50% weighting) – with no STI earned until 95% of EBITDA budget is achieved at which level 50% of STI is payable, with no further payment until 100% budget achievement;
- Culture programme (20% weighting) – assessed by external consultant review of success;
- Market Share (10% weighting);
- Health, Safety and Environment initiatives (10% weighting); and
- Guardian Plan prepaid contracts funds under management ('FUM') (10% weighting) - with no STI earned until 50% of the target FUM earnings rate is achieved at which level 50% of STI is payable and pro rata is payable between 50% and 100% achievement of the target FUM earnings rate

If the CEO meets the KPIs, then the Employee's STI Entitlement is 51.4% of his TFR. The CEO's STI Entitlement will be reviewed annually at a time determined by the Board. As a result of a review, the CEO's STI Entitlements may be increased or stay the same, but cannot be reduced.

If in any year the CEO in aggregate exceeds the KPIs having regard only to those of the CEO's KPI's which are objectively measurable, then the CEO's STI Entitlement will be increased in that year by the same percentage as the KPIs, taken collectively, are exceeded.

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

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

Former Chief Executive

At the Annual General Meeting held on 20 May 2016, shareholders approved the cash settlement of long term incentive shares subject to the satisfaction of the original vesting conditions.

The relevant tests have been applied to the unvested grants and a further 16,698 units will vest on 23 February 2018. Using the closing share price on 31 December 2017 that total value of the payment would be approximately \$260,000. There are a further 7,559 shares to be tested in February 2019.

Other Senior Executives

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

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

- TFR;
- short-term incentive bonus averaging 38% of TFR with no retesting to recover any previous year shortfall; and
- LTI awards averaging 40% of TFR.

Termination Arrangements for Senior Executives

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

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

Termination benefits are limited to statutory leave entitlements, unless determined otherwise by the People, Culture & Remuneration Committee and Board. At the Annual General Meeting on 19 May 2017 the shareholders approved a resolution concerning potential termination benefits.

Senior Executives are generally subject to post-employment restrictions for up to twelve months after employment termination without consideration paid for the restraint.

Non-executive directors

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

Directors' Report continued

Remuneration report continued

G. Share-based Compensation

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

	Year of grant	Final year vesting may occur (note 1)	Number of shares or rights granted	Value at grant date (note 2)	Number vested during year	Total number vested	Vested %	Maximum value yet to vest (note 3)
Martin Earp	2015	2020	17,410	\$239,200	5,803	5,803	33%	159,921
	2016	2021	10,617	\$128,250	-	-	-	128,250
	2017	2022	9,258	\$130,174	-	-	-	130,174
Josée Lemoine	2016	2021	2,931	\$35,410	-	-	-	35,410
	2017	2022	3,201	\$45,000	-	-	-	45,000
Greg Bisset	2012	2017	16,088	\$127,803	492	16,088	100%	-
	2013	2018	12,212	\$133,525	5,964	12,212	100%	-
	2014	2019	12,044	\$136,863	4,015	8,029	67%	46,621
	2015	2020	10,260	\$140,969	3,420	3,420	33%	93,979
	2016	2021	7,457	\$90,079	-	-	-	93,079
Wee Leng Goh	2012	2017	5,081	\$39,432	157	4,799	100%	-
	2013	2018	4,124	\$45,075	2,015	4,124	100%	-
	2014	2019	4,607	\$52,336	1,374	3,071	67%	32,127
	2015	2020	4,074	\$55,977	1,358	1,358	33%	43,889
	2016	2021	4,155	\$49,259	-	-	-	61,618
	2017	2022	3,380	\$47,523	-	-	-	52,703
Graeme Rhind	2012	2017	4,536	\$35,199	139	4,536	100%	-
	2013	2018	3,464	\$37,862	1,693	3,464	100%	-
	2014	2019	4,011	\$45,565	1,534	2,674	67%	21,296
	2015	2020	3,422	\$47,018	1,140	1,140	33%	35,230
	2016	2021	2,858	\$35,238	-	-	-	45,511

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

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

	Year of grant	Final year vesting may occur (note1)	Number of options granted	Value at grant date (note 2)	Number vested during year	Total number vested	Vested %	Maximum value yet to vest (note 3)
Martin Earp	2016	2021	160,313	\$384,750	-	-	-	740,646
	2017	2022	133,284	\$390,521	-	-	-	511,811
Josée Lemoine	2016	2021	14,754	\$35,410	-	-	-	68,163
	2017	2022	46,075	\$135,000	-	-	-	176,928
Greg Bisset	2016	2021	37,533	\$90,079	-	-	-	90,079
Wee Leng Goh	2016	2021	20,946	\$49,259	-	-	-	91,786
	2017	2022	16,221	\$47,523	-	-	-	64,366
Graeme Rhind	2016	2021	14,416	\$35,238	-	-	-	66,337

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

The number of ordinary shares in the Company, or share appreciation rights or options, held during the year by each director of InvoCare Limited and other key management personnel are summarised in Note 7 on page 72.

H. Use of remuneration consultants

During the year, the People, Culture & Remuneration Committee requested support from external consultants to provide remuneration benchmarks for non-executive directors and selected Senior Executives. This advice did not constitute a "remuneration recommendation" as defined in the *Corporations Act 2001 (Cth)*.

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 2017:

	\$
Australian Firm	
Assurance services	27,250
Taxation services	48,000
Other services	173,820
Non-Australian Firms	
Taxation services	57,760
Other services	3,489
Total	310,319

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

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



Richard Fisher
Director



Martin Earp
Director

Dated this 19 February 2018



Auditor's Independence Declaration

As lead auditor for the audit of InvoCare Limited for the year ended 31 December 2017, 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.

A handwritten signature in black ink that reads 'Michelle Chiang'.

MW Chiang
Partner

Sydney
19 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757

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Financial Report

InvoCare Limited and Controlled Entities

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Consolidated Income Statement

For the year ended 31 December 2017

	Notes	2017 \$'000	2016 \$'000
Revenue from continuing operations	4	465,963	460,834
Finished goods, consumables and funeral disbursements		(124,404)	(127,025)
Employee benefits expense		(153,784)	(150,758)
Advertising and public relations expenses		(15,604)	(16,530)
Occupancy and facilities expenses		(28,421)	(28,454)
Motor vehicle expenses		(8,295)	(7,881)
Other expenses		(15,544)	(17,907)
		119,911	112,279
Depreciation and amortisation expenses	5	(21,260)	(21,335)
Cemetery land impairment charge	5	(12,000)	(154)
Cemetery land impairment reversal	5	1,100	-
Restructuring costs		(627)	-
Gain/(Loss) on disposal of a subsidiary		(1,063)	-
Finance costs	5	(12,417)	(13,555)
Interest income		1,005	964
Net gain on undelivered prepaid contracts	15	63,316	22,928
Acquisition related costs		(392)	(79)
Net gain on disposal of non-current assets		3,350	(676)
Profit before income tax		140,923	100,372
Income tax expense	6	(43,361)	(29,324)
Profit from continuing activities		97,562	71,048
Profit for the year		97,562	71,048
Profit is attributable to:			
Equity holders of InvoCare Limited		97,439	70,949
Non-controlling interests		123	99
		97,562	71,048
Earnings per share for profit attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents per share)	11	88.8	64.7
Diluted earnings per share (cents per share)	11	88.0	64.6

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 2017

	Notes	2017 \$'000	2016 \$'000
Profit for the year		97,562	71,048
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges, net of tax	26	489	1,048
Changes in foreign currency translation reserve, net of tax	26	(1,977)	1,083
Other comprehensive income for the year, net of tax		(1,488)	2,131
Total comprehensive income for the year		96,074	73,179
Total comprehensive income for the year is attributable to:			
Equity holders of InvoCare Limited		95,951	73,080
Non-controlling interests		123	99
		96,074	73,179

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

Consolidated Balance Sheet

For the year ended 31 December 2017

	Notes	2017 \$'000	2016 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	12	15,531	11,528
Trade and other receivables	13	49,317	48,556
Inventories	14	29,133	25,738
Prepaid contract funds under management	15	46,247	39,260
Assets held for sale	18	460	2,704
Deferred selling costs		1,725	1,536
Total current assets		142,413	129,322
Non-current assets			
Trade and other receivables	13	30,951	27,976
Other financial assets		4	4
Property, plant and equipment	18	354,725	332,008
Prepaid contract funds under management	15	499,578	433,796
Intangible assets	19	147,188	152,495
Deferred selling costs		9,702	9,590
Total non-current assets		1,042,148	955,869
Total assets		1,184,561	1,085,191
LIABILITIES			
Current liabilities			
Trade and other payables	21	53,936	44,671
Derivative financial instruments	20	507	966
Current tax liabilities		12,037	9,935
Prepaid contract liabilities	15	38,949	37,595
Deferred revenue		11,500	10,243
Provisions	23	15,170	14,511
Total current liabilities		132,099	117,921
Non-current liabilities			
Trade and other payables	21	-	91
Borrowings	22	243,078	234,455
Derivative financial instruments	20	1,490	1,774
Deferred tax liabilities	6 (d)	55,427	41,062
Prepaid contract liabilities	15	413,135	400,433
Deferred revenue		53,334	52,216
Provisions	23	3,581	3,029
Total non-current liabilities		770,045	733,060
Total liabilities		902,144	850,981
Net assets		282,417	234,210
EQUITY			
Contributed equity	25	136,344	134,914
Reserves	26	5,046	7,344
Retained profits	26	139,843	90,815
Parent entity interest		281,233	233,073
Non-controlling interests	27	1,184	1,137
Total equity		282,417	234,210

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Notes	Attributable to Owners of InvoCare Limited				Non controlling interests \$'000	Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Total		
Balance at 1 January 2017		134,914	7,344	90,815	233,073	1,137	234,210
Total comprehensive income for the year		-	(1,488)	97,439	95,951	123	96,074
Transactions with owners in their capacity as owners:							
Dividends paid	10	-	-	(48,411)	(48,411)	(76)	(48,487)
Deferred employee share plan shares vesting during the year	26	1,043	(1,043)	-	-	-	-
Transfer of shares from the deferred plan to the InvoCare Exempt Share Plan Trust	25	387	-	-	387	-	387
Employee shares – value of services	26	-	233	-	233	-	233
Balance at 31 December 2017		136,344	5,046	139,843	281,233	1,184	282,417
Balance at 1 January 2016		133,694	5,529	63,054	202,277	1,161	203,438
Total comprehensive income for the year		-	2,131	70,949	73,080	99	73,179
Transactions with owners in their capacity as owners:							
Dividends paid	10	-	-	(43,188)	(43,188)	(123)	(43,311)
Deferred employee share plan shares vesting during the year	26	866	(866)	-	-	-	-
Transfer of shares from the deferred plan to the InvoCare Exempt Share Plan Trust	25	354	-	-	354	-	354
Employee shares – value of services	26	-	550	-	550	-	550
Balance at 31 December 2016		134,914	7,344	90,815	233,073	1,137	234,210

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 2017

	Notes	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Receipts from customers (including GST)		509,255	508,492
Payments to suppliers and employees (including GST)		(402,834)	(400,828)
Other revenue		7,990	9,359
		114,411	117,023
Interest received		7	25
Finance costs		(11,905)	(13,233)
Income tax paid		(26,933)	(25,319)
Net cash inflow from operating activities	30	75,580	78,496
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		7,713	4,510
Purchase of subsidiaries and other businesses including acquisition costs, net of cash acquired		(393)	(1,270)
Proceeds from sale of subsidiaries and other businesses, net of restructuring costs		1,644	-
Purchase of property, plant and equipment		(47,471)	(30,321)
Payments to funds for pre-paid contract sales		(38,758)	(46,669)
Receipts from funds for pre-paid contracts performed		43,290	39,253
Net cash outflow from investing activities		(33,975)	(34,497)
Cash flows from financing activities			
Proceeds from borrowings		51,733	84,735
Repayment of borrowings		(40,780)	(82,500)
Payment of dividends – InvoCare Limited shareholders		(48,411)	(43,188)
Dividends paid to non-controlling interests in subsidiaries		(76)	(123)
Net cash outflow from financing activities		(37,534)	(41,076)
Net increase in cash and cash equivalents		4,071	2,923
Cash and cash equivalents at the beginning of the year		11,528	8,679
Effects of exchange rate changes on cash and cash equivalents		(68)	(74)
Cash and cash equivalents at the end of the year	12	15,531	11,528

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

Note 1: Summary of Significant Accounting Policies

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

(a) Basis of preparation

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

(i) Compliance with IFRS

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

(ii) Historical cost convention

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

(iii) Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the exercise of judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed at Note 36.

(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 2017 and the results of all subsidiaries for the year then ended. InvoCare Limited and its subsidiaries are together referred to in this financial report as the Group or the consolidated entity.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(i)).

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

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

(ii) Employee share trust

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

(iii) Associates

Associates are entities 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 initially being recognised at cost.

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

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

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is InvoCare Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 1: Summary of Significant Accounting Policies continued

(d) Foreign currency translation continued

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

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

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

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, allowances, duties and taxes paid.

Revenue is recognised when the funeral, burial, cremation or other services are performed or the goods supplied.

Revenues relating to undelivered memorials and merchandise are deferred until delivered or made ready for use. Minor items such as plaques, ash containers and vases where actual deliveries are not individually tracked are released to revenue over 15 years.

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

Interest income is recognised using the effective interest method.

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

(f) Deferred selling costs

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

(g) Income tax

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

(h) Leases

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

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

(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

Note 1: Summary of Significant Accounting Policies continued

(i) Business combinations and acquisitions of assets Continued

the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 1(p)). If the cost of acquisition is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Any variations in the initial estimates of deferred consideration and the final amount payable are remeasured through the statement of comprehensive income.

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

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

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversals of the impairment at each reporting date.

(k) Cash and cash equivalents

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

(l) Receivables

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

Trade receivables are usually due for settlement no more than 30-days from the date of recognition, except where extended payment terms (up to a maximum of 60-months) have been made available on cemetery or crematorium contracts for sale of interment or inurnment rights and associated memorials and other merchandise. Receivables arising from cemetery or crematorium contracts which are initially expected to be collected over a period exceeding twelve

months are recognised as non-current receivables and measured as the net present value of estimated future cash receipts, discounted at an imputed effective interest rate. Upon initial recognition of the contract receivables, any undelivered portion of the contracts is included in deferred revenue until delivery.

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

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, a proportion of variable and fixed overhead. Costs are assigned to individual items of inventory predominantly on the basis of weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(n) Prepaid contracts

Prepaid contracts are tripartite agreements whereby the Group agrees to deliver a specified funeral, cremation or burial service at the time of need and the beneficiary invests the current price of the service to be delivered with a financial institution and conditionally assigns the benefit to the Group. The Group records the value of the invested funds as an asset and revalues the invested funds to fair value at the end of each reporting period. The Group initially recognises a liability at the current selling price of the service to be delivered and increases this liability to reflect the change in selling prices to reflect the best estimate of the expenditure required to settle the obligation at the end of each reporting period.

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

(o) Property, plant and equipment

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 1: Summary of Significant Accounting Policies continued

(o) Property, plant and equipment continued

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

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

(p) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses (Note 19).

(ii) Trademarks and brand names

Trademarks and brand names have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and brand names over their estimated useful lives of 10-years.

(q) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which had not been settled at balance date. The amounts are unsecured and are usually paid within 60 days of recognition.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least Twelve months after the balance sheet date.

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

(s) Derivative financial instruments

The Group uses derivative financial instruments such as cross currency and interest rate swaps to hedge its risks associated with exchange and interest rate fluctuations. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The

Group designates certain derivatives as either:

- hedges of the risks associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation.

The Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows or hedged items.

The fair value of interest rate swap contracts is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 20. Movements in the hedging reserve in shareholders' equity are shown in Note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12-months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12-months.

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

(i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within finance costs.

Amounts accumulated in equity are recycled in the statement of comprehensive income within finance costs in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(ii) Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement.

(t) Employee benefits

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled

Note 1: Summary of Significant Accounting Policies continued

(t) Employee benefits continued

within 12-months of the reporting date are recognised in other payables and provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled, including appropriate on-costs. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including appropriate on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Bonus plans

The Group recognises a liability in other payables and an expense for bonus plans when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practices give clear evidence of a constructive obligation.

(iv) Share-based payments

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

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

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

(u) Contributed equity

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

(v) Dividends

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

(w) Earnings per share

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

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

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

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

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

(y) Parent entity financial information

The financial information for the parent entity, InvoCare Limited, disclosed in Note 34 has been prepared on the same basis as the consolidated financial statements, except investments in subsidiaries and associates which are accounted for at cost in the financial statements of InvoCare Limited. Dividends received from associates are recognised as a reduction in the carrying value of the investment in associates.

(z) Rounding of amounts

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

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 2017 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

Nature of change:

The AASB has issued a new standard for the recognition of revenue, based on the principle that revenue is recognised when control of a good or service transfers to a customer. This will replace AASB 118: *Revenue* which covers revenue arising from the sale of goods and the rendering of services and AASB 111: *Construction Contracts* which covers construction contracts. Moreover, AASB 15 includes increased disclosure requirements about the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact:

The following areas will be affected and the impacts of applying the new standard on the Group's financial statements on a modified retrospective approach are as follows:

Summarised Impact		
Item	AASB 15 New standard	Approximate \$ impact on 1 January 2018
Accounting for prepaid funeral service contracts	Under the new standard, the 10% fee received at contract inception will be deferred until the service is provided. Commissions and directly related fulfilment costs will be capitalised in accordance with the standards.	<ul style="list-style-type: none"> Deferred revenue will increase by approximately \$30.2 million; Deferred selling costs will increase by \$20.1 million; Deferred tax liabilities will decrease by \$3.0 million; and Retained earnings will decrease by \$7.1 million on 1 January 2018.
Accounting for Cemetery & Crematorium memorial products ('memorial products')	<p>Under the new standard, the revenue will be deferred for all outstanding contracts at 31 December 2017 where the customer has yet to pay the full remaining balance, which is when control of the interment right is deemed to have passed. For memorial products, revenue is recognised on delivery.</p> <p>Based on the current contract payment terms, the deferred revenue is expected to be recognised as revenue within the next five years.</p> <p>New memorial product contracts entered into from 1 January 2018 will provide the customer with control of the memorial product at contract inception.</p>	<ul style="list-style-type: none"> Trade and other receivables will decrease by approximately \$55.4 million; Deferred revenue will increase by approximately \$82.3 million; Deferred selling costs and inventory will increase by \$28.1 million; Deferred tax liabilities will decrease by \$16.3 million; and Retained earnings will decrease by \$93.3 million.

Summarised Impact

Item	AASB 15 New standard	Approximate \$ impact on 1 January 2018
Accounting for prepaid funeral, burial and cremation services	<p>The nature of prepaid contracts generally results in a significant time delay between payment and delivery of service (on average 15-years).</p> <p>As a result, a significant financing component is required to be recognised on the deferred revenues associated with these contracts.</p> <p>The discount rate applied results in revenue being recognised that approximates the cash selling price as if the customer had paid the consideration at the same time the services are provided.</p> <p>All costs to deliver a service contract or memorial product will be expensed as incurred.</p>	<ul style="list-style-type: none"> • Deferred revenue (relating to the financing component) will increase by approximately \$38.0 million; • Deferred tax liabilities will decrease by \$11.4 million; and • Retained earnings will decrease by \$26.6 million reflecting the cumulative impact of the financing component since contract inception. • From 1 January 2018, the group will recognise a financing expense on the deferred income associated with unperformed contracts.

Presentation and disclosure requirements:

The presentation and disclosure requirements in AASB 15 are more detailed than under current Australian Accounting Standards. Many of the disclosure requirements in AASB 15 are new and the Group has assessed there will be an increase in the disclosures required in the Group's financial statements. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of estimates and judgements made when assessing the contracts where the Group has concluded that there is a significant financing component.

In addition, as required by AASB 15, the Group will separate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of separate revenue streams and revenue information disclosed for each reportable segment. In 2017, the Group continued implementing appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

Date of adoption by the Group:

The new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 1: Summary of Significant Accounting Policies continued

(aa) New accounting standards and interpretations continued

Estimation of cumulative impact on consolidated balance sheet

The cumulative estimated effect of the changes that will be made to the Group's consolidated 1 January 2018 balance sheet for the adoption of AASB 15 *Revenue from Contracts with Customers* will be as follows:

	Balance at 31 December 2017	AASB 15 adjustment	Restated Balance at 31 December 2017
	\$'000	\$'000	\$'000
ASSETS			
Current assets			
Trade and other receivables	49,317	(33,400)	15,917
Inventories	29,133	15,800	44,933
Deferred selling costs	1,725	4,400	6,125
Other current assets	62,238	-	62,238
Total current assets	142,413	(13,200)	129,213
Non-current assets			
Trade and other receivables	30,951	(22,000)	8,951
Deferred selling costs	9,702	28,000	37,702
Other non-current assets	1,001,495	-	1,001,495
Total non-current assets	1,042,148	6,000	1,048,148
Total assets	1,184,561	(7,200)	1,177,361
LIABILITIES			
Current liabilities			
Deferred revenue	11,500	19,500	31,000
Other current liabilities	120,599	-	120,599
Total current liabilities	132,099	19,500	151,599
Non-current liabilities			
Deferred tax liabilities	54,127	(30,690)	23,437
Deferred revenue	53,334	131,000	184,334
Other non-current liabilities	661,284	-	661,284
Total non-current liabilities	770,045	100,310	870,355
Total liabilities	902,144	119,810	1,021,954
Net assets	282,417	(127,010)	155,407
EQUITY			
Contributed equity	136,344	-	136,344
Reserves	5,046	-	5,046
Retained profits	139,843	(127,010)	12,833
Parent entity interest	281,233	(127,010)	154,223
Non-controlling interests	1,184	-	1,184
Total equity	282,417	(127,010)	155,407

Other adjustments:

In addition to the major adjustments described above, on adoption of AASB 15, other items of the primary financial statements such as deferred taxes will be affected and adjusted as necessary.

The recognition and measurement requirements in AASB 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

(ii) AASB 9: *Financial Instruments*

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

(iii) AASB 16: *Leases*

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard is not applicable until 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of \$46,247,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 2: Financial Risk Management

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

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

The Group holds the following financial assets and liabilities:

	2017 \$'000	2016 \$'000
Financial assets		
Cash and cash equivalents	15,531	11,528
Trade and other receivables*	73,747	68,277
Prepaid contract funds under management	545,825	473,056
Other financial assets	4	4
	635,107	552,865
Financial liabilities		
Trade and other payables	53,936	43,965
Borrowings	243,078	234,455
Derivative financial instruments	1,997	2,740
	299,011	281,160

* excluding prepayments and security deposits

(a) Market risk

(i) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. All borrowings are initially at variable interest rates determined by a margin over the reference rate based on the Group's leverage ratio. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The broad policy of the Group is to keep 75% of debt, measured by individual currency, on fixed interest rates over the next twelve months by entering into interest rate swap contracts. The policy, however, provides flexibility to reduce the level of coverage in low interest rate currency or when the interest rate outlook is relatively benign. The Group has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates. The bank loans of the Group outstanding during the year had an effective average interest rate of 3.98% (2016: 4.64%) inclusive of swaps and margins but excluding establishment fees.

At balance date, interest rate swaps for 75% (2016: 71%) of borrowings were in place. Of these interest rate swaps 25% (2016: 28%) were denominated in New Zealand dollar fixed interest instruments, with the balance denominated in Australian dollars. As at 31 December 2017 the weighted average fixed interest rate payable on the interest rate swaps is 2.89% (2016: 3.45%) and the weighted average variable rate receivable as at 31 December 2017 is 1.82% (2016: 1.85%).

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

	31 December 2017		31 December 2016	
	Weighted average interest rate	Balance \$'000	Weighted average interest rate	Balance \$'000
Bank loans	3.98%	243,984	4.64%	235,181
Interest rate swaps (notional principal)	2.89%	160,905	3.45%	166,787
Net exposure to cash flow interest rate risk		404,889		401,968

Note 2: Financial Risk Management continued

(a) Market risk continued

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

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

	2017 \$'000	2016 \$'000
Less than one year	27,270	60,000
One to two years	30,000	31,191
Two to three years	73,635	30,000
Three to four years	30,000	75,596
Four to five years	-	30,000
	160,905	226,787

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 (2016: 100 basis points) and 50 basis points in Singapore (2016: 50 basis points) in the interest rate would result in additional interest expense after tax of \$476,000 (2016: \$415,000). A decrease of 100 basis points in Australian and New Zealand rates (2016: 100 basis points) and 50 basis points in Singapore (2016: 50 basis points) in the interest rate would result in an after tax gain of \$476,000 (2016: \$415,000). 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 2017 and the movements in the fair value of these instruments have been quarantined in equity. If interest rates decline by 100 basis points (2016: 100 basis points) a further \$1,140,000 (2016: \$1,144,000) 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 \$1,140,000 (2016: \$1,144,000) net of tax.

The overall impact on the Group has been summarised on page 66.

The Group's cash and cash equivalents held in Australia are interest bearing. At 31 December 2017 the weighted average interest rate was 0.00% (2016: 0.00%). If interest rates changed by 100 basis points (2016: 100 basis points) the Group's after tax result would increase or decrease by \$78,000 (2016: \$53,000).

(ii) Foreign exchange risk

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

Foreign exchange risks arise from recognised assets and liabilities that are denominated in a currency other than the Group's functional currency, the Australian dollar. The major foreign exchange risk relates to the investments in controlled entities in New Zealand and Singapore. This exposes the Group to foreign currency risk on the assets and liabilities. Borrowings have been made in New Zealand and Singapore dollars to provide a natural hedge against the risk of changes in exchange rates.

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

	2017 \$'000		2016 \$'000	
	New Zealand Dollars	Singapore Dollars	New Zealand Dollars	Singapore Dollars
Borrowings	47,775	30,209	53,381	25,800
Derivatives	731	-	1,132	-

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

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 2017. The Singapore dollar borrowing is undertaken in Australia and designated as the hedge of a net investment in a subsidiary. The New Zealand dollar borrowings are undertaken in New Zealand.

(iii) Price risk

The Group is the ultimate beneficiary of funds invested in various prepaid contract trusts, as described in Note 1 (n). There are a significant number of trusts in existence with various investment profiles.

Accordingly, the Group's future income is sensitive to the price risk relating to the investment returns of these funds under management. These funds are invested in a range of asset classes with different price risk variables including cash, fixed interest, Australian and international equities, hybrids and direct and indirect property. Based on the asset allocation as at 31 December 2017 and 31 December 2016 the following changes in investment returns are reasonably probable.

	31 December 2017		31 December 2016	
	Increase	Decrease	Increase	Decrease
Asset class				
Equities (plus or minus 10%)	10,916	(10,916)	6,150	(6,150)
Property (plus or minus 3%)	2,620	(2,620)	4,541	(4,541)
Cash and fixed interest (no price risk)	-	-	-	-
	13,536	(13,536)	10,691	(10,691)

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:

	2017 %	2016 %
Equities	20	13
Property	16	32
Cash and fixed interest (includes hybrid securities)	64	55

Approximately 88% 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 \$2,593,000 (2016: \$2,281,000). As at 31 December 2017, receivables with a nominal value of \$4,132,000 (2016: \$2,945,000) 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 2017, trade receivables of \$10,714,000 (2016: \$11,928,000) were past due but had not been referred to external debt collection agents and hence were considered not to be impaired. These relate to customers where there is no current evidence of an inability or unwillingness to settle the amount due but where payment has been delayed. The Group's own collection activity, which varies based on the nature and relative age of the debt, is routinely applied to all past due accounts. When these activities do not result in a successful outcome, the debt is referred to external debt collection agencies.

The ageing of receivables past due but not impaired follows:

	2017 \$'000	2016 \$'000
One to three months overdue	5,224	6,163
Over three months overdue	5,490	5,765

(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:

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 2: Financial Risk Management continued

(c) Liquidity risk continued

	2017 \$'000	2016 \$'000
Finance facilities available		
Unrestricted access was available at balance date to the following lines of credit:		
Total facilities		
- unsecured loan facility expiring in two to five years	390,000	290,000
- working capital facility expiring within one year	9,559	9,442
	399,559	299,442
Used at balance date		
- unsecured loan facility	243,984	235,203
- working capital facility	1,741	1,621
	245,725	236,824
Unused at balance date		
- unsecured loan facility	146,016	54,797
- working capital facility	7,818	7,821
	153,834	62,618

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

31 December 2017	Less than one year \$'000	Two to three Years \$'000	More than three Years \$'000	Total \$'000
Trade and other payables	53,936	-	-	53,936
Borrowings	-	150,000	93,984	243,984
Derivatives	507	1,078	412	1,997

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

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 \$390 million, \$120 million expiring in December 2020 and \$270 million expiring in July 2019.

The facilities agreements' covenant ratios are calculated on a rolling 12-month basis and have been met at 31 December 2017. 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

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 2017, basic EPS was 88.8 cents (2016: 64.7 cents). Operating EPS, which excludes restructuring costs, gains and losses on the disposal or impairment of non-current assets and on undelivered prepaid contracts and non-controlling interests and disposal of subsidiaries, was 57.9 cents (2016: 52.4 cents). Importantly, senior management of the Group have long-term incentives linked to EPS growth, thus aligning employee and shareholder interests. Total compound annual shareholder return, being the sum of cash dividends and share price growth, has exceeded 18% (2016: 18%) 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 \$9.84 or 984% (2016: \$8.40 or 840%) up to 31 December 2017.
- 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 2017 dividends represents a payout ratio of 80% (2016: 82%) of operating earnings after tax.
- Confirming compliance with the debt covenant ratios, as defined in the facility agreements, through bi-annual calculations. The Group has complied with its banking covenants as follows:
 - Interest cover (EBITDA/Net Interest Expense) must be greater than 3.00:1.
 - Leverage ratio (Net Debt/Adjusted EBITDA) must not be greater than 3.50:1.
- Maintaining an optimal leverage ratio: The optimal capital structure, which has the lowest cost of capital, is indicatively at a leverage ratio (i.e. Net Debt/EBITDA) of between 3:1 and 5:1. The Group can sustain and service higher levels of debt than the amount at balance date. Where the capacity exists, debt financing will be used for small acquisitions and capital expenditure. In the absence of opportunities to invest in growing the business, the Group will consider applying excess debt capacity to make returns to shareholders.
- Maintaining floating to fixed base interest rate swaps for at least 75% of debt principal in Australia and New Zealand. At 31 December 2017 the proportion of debt hedged was 75% (2016: 78%). The hedge contracts extend to the second half of 2021.
- Managing refinancing risk: The Group's debt facilities were renegotiated in the latter part of 2017 and settled on 16 February 2018. The new facilities provide a revolving facility of \$200 million in multi currencies for three years, a fixed \$150 million dollar facility not subject to repayment for five years and a \$100 million fixed note facility for ten years which is borrowed in Australian dollars without the need for hedging.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

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 2017	Carrying amount \$'000	Interest rate risk				Foreign exchange risk			
		- 100 basis points		+ 100 basis points		- 10%		+ 10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets									
Cash and cash equivalents	15,531	(78)	-	78	-	-	-	-	-
Accounts receivable	73,747	-	-	-	-	-	-	-	-
Prepaid contract funds under management	545,824	(5,145)	-	5,145	-	-	-	-	-
Other financial assets	4	-	-	-	-	-	-	-	-
Financial liabilities									
Trade and other payables	(53,936)	-	-	-	-	-	-	-	-
Borrowings	(243,078)	(476)	-	476	-	(254)	2,462	208	(2,352)
Derivatives	(1,997)	-	1,140	-	(1,140)	-	(2,462)	-	2,352
Total increase / (decrease)		(5,699)	1,140	5,699	(1,140)	(254)	-	208	-

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

(f) Fair value estimation

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

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- 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
- 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 \$36 (2016: \$1,000). Similarly, a 10% decrease in the discount rate results in an increase in contingent consideration of \$37 (2016: \$1,000).

Note 2: Financial Risk Management continued

(f) Fair value estimation continued

	2017 \$'000	2016 \$'000
Level 2		
Prepaid contract funds under management	545,825	473,056
Derivatives financial instruments	(1,997)	(2,740)
Level 3		
Contingent consideration	(182)	(283)

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

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

Note 3: Segment Information

(a) Description of segments

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

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

The segment information provided to the CEO for reportable segments to 31 December 2017 and 31 December 2016 is outlined below.

	Australian Operations	Singapore Operations	New Zealand Operations	Other Operations	Consolidated
	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000
Revenue from external customers	393,996	15,661	46,369	889	456,915
Other revenue (excluding interest income)	8,244	325	252	227	9,048
Operating expenses	(298,859)	(9,194)	(36,545)	(1,454)	(346,052)
	103,381	6,792	10,076	(338)	119,911
Revenue adjustment - prepaid redemptions*	13,905	-	-	-	13,905
Other revenue adjustment - prepaid redemptions*	(6,000)	-	-	-	(6,000)
Operating expenses adjustment - prepaid redemptions*	(3,500)	-	-	-	(3,500)
Operating EBITDA	107,786	6,792	10,076	(338)	124,316
Depreciation and amortisation	(18,170)	(286)	(2,665)	(139)	(21,260)
Cemetery land impairment reversal	1,100	-	-	-	1,100
Cemetery land impairment charge	(12,000)	-	-	-	(12,000)
Finance costs	(8,969)	(736)	(2,715)	3	(12,417)
Interest income	996	-	9	-	1,005
Income tax expense	(41,756)	(702)	(890)	(13)	(43,361)
Total goodwill	85,779	14,036	43,873	-	143,688
Total assets	1,044,356	50,521	89,510	174	1,184,561
Total liabilities	813,292	32,927	55,891	34	902,144

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 3: Segment Information continued

(b) Segment information provided to the Chief Executive Officer (“CEO”) continued

	Australian Operations	Singapore Operations	New Zealand Operations	Other Operations	Consolidated
	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000
Revenue from external customers	386,924	17,236	44,246	2,253	450,659
Other revenue (excluding interest income)	9,010	463	210	492	10,175
Operating expenses	(297,818)	(9,543)	(35,461)	(5,733)	(348,555)
	98,116	8,156	8,995	(2,988)	112,279
Revenue adjustment - prepaid redemptions*	11,885	-	-	-	11,885
Other revenue adjustment - prepaid redemptions*	(6,675)	-	-	-	(6,675)
Operating expenses adjustment - prepaid redemptions*	(2,145)	-	-	-	(2,145)
Operating EBITDA	101,181	8,156	8,995	(2,988)	115,344
Depreciation and amortisation	(18,103)	(530)	(2,510)	(192)	(21,335)
Intangible assets impairment charge	-	-	(154)	-	(154)
Finance costs	(10,527)	(652)	(2,376)	-	(13,555)
Interest income	935	-	27	2	964
Income tax expense	(27,695)	(1,028)	(590)	(11)	(29,324)
Total goodwill	85,780	13,992	46,380	1,721	147,873
Total assets	944,820	42,414	93,841	4,116	1,085,191
Total liabilities	759,677	28,776	61,889	639	850,981

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

(c) Segment information – accounting policies

Operating EBITDA is reconciled to profit before tax on the face of the Consolidated Income Statement.

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

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. The Group's operations in Hong Kong and USA have been aggregated under “Other Operations” in the tables above due to its relatively small size.

Note 4: Revenue from Continuing Operations

	2017 \$'000	2016 \$'000
Sales revenue		
Sale of goods	191,198	190,216
Services revenue	265,717	260,443
	456,915	450,659
Other revenue		
Rent	381	357
Administration fees	6,338	6,914
Sundry revenue	2,329	2,904
	9,048	10,175
Total revenue from continuing operations	465,963	460,834

Note 5: Expenses

	2017 \$'000	2016 \$'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	4,552	4,436
Property, plant and equipment	14,325	14,322
Total depreciation	18,877	18,758
Amortisation of non-current assets		
Cemetery land	436	540
Leasehold land and buildings	176	176
Leasehold improvements	760	660
Brand names	1,011	1,200
Total amortisation	2,383	2,576
Total depreciation and amortisation	21,260	21,335
Impairment of other assets		
Cemetery land impairment reversal	(1,100)	-
Intangible assets impairment charge	-	154
Cemetery land impairment charge	12,000	-
Total depreciation, amortisation and impairment	32,160	21,489
Finance costs		
Interest paid and payable	10,036	11,469
Other finance costs	2,381	2,086
Total financing costs	12,417	13,555
Impairment losses – financial assets		
Trade receivables	589	649
Rental expense		
Operating lease rental – minimum lease payments	11,011	11,439
Defined contribution superannuation expense	9,449	8,824

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 6: Income Tax

(a) Income tax expense

	2017 \$'000	2016 \$'000
Current tax	29,253	25,344
Deferred tax	14,044	4,259
Under / (over) provided in prior years	64	(279)
Income tax expense attributable to continuing operations	43,361	29,324

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

	2017 \$'000	2016 \$'000
Prima facie tax at 30% (2016: 30%) on profit before tax	42,277	30,112
Tax effect of amounts which are not deductible/(taxable) in calculation of taxable income		
Impact of previously unrecognised capital losses offsetting capital gains and unrecognised capital losses	-	(118)
Impact of the eliminations of translation gains / (losses) on intercompany balances in foreign currencies	-	30
Impact of impairment of financial assets	-	43
Acquisition costs not deductible	323	-
Revenue losses not recognised	117	794
Other items (net)	1,480	(319)
	44,197	30,542
Difference in overseas tax rates	(900)	(939)
Under / (over) provision in prior years	64	(279)
Income tax expense	43,361	29,324

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

	2017 \$'000	2016 \$'000
Cash flow hedges	200	410

Note 6: Income Tax continued

(d) Deferred tax liability

	2017 \$'000	2016 \$'000
The deferred tax liability balances comprised temporary differences attributable to:		
Amounts recognised in profit and loss:		
Cemetery land	25,979	29,389
Property, plant and equipment	4,993	4,109
Deferred selling costs	3,428	3,338
Prepayments and other	43	364
Brand names	1,033	1,350
Prepaid contracts	28,425	10,508
Provisions	(5,126)	(5,889)
Receivables	(1,212)	(229)
Accruals and other	(1,552)	(1,068)
Amounts recognised directly in equity:		
Cash flow hedge reserve	(584)	(810)
	55,427	41,062
The net movement in the deferred tax liability is as follows:		
Balance at the beginning of the year	41,062	36,420
Net charge to income statement – current period	14,044	4,259
Net charge (credit) to income statement – prior periods	409	(41)
Amounts recognised directly in equity	(200)	410
Effect of movements in exchange rates	112	14
Balance at the end of the year	55,427	41,062
Deferred tax (assets) to be settled within 12 months	(1,808)	(1,481)
Deferred tax liabilities to be settled after 12 months	57,235	42,543
	55,427	41,062

(e) Tax losses

The Group has no unutilised losses. During the year the USA operations were sold which included the value of unutilised losses previously available.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 7: Key Management Personnel Disclosures

(a) Key management personnel compensation

	2017 \$	2016 \$
Short-term employee benefits	3,529,619	3,786,464
Termination benefits	121,990	-
Post-employment benefits	177,568	179,086
Other long-term benefits	36,015	33,240
Share-based payments	1,086,516	829,975
	4,951,708	4,828,765

Detailed remuneration disclosures are provided in the Remuneration Report on pages 32 to 43.

(b) Equity instrument disclosures relating to key management personnel

(i) Shares and share appreciation rights provided as remuneration

Details of shares and share appreciation rights provided as remuneration, together with terms and conditions of the shares and share appreciation rights, can be found in the Remuneration Report starting on pages 32 to 43.

For details of the share options issued please refer to Note 8: Share based payments on page 73.

(ii) Holdings of shares and share appreciation rights

The number of ordinary shares in the Company, or share appreciation rights in the case of 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 Performance Long-term Incentive Plan ("PLTIP"), the details of which are outlined in Note 8.

	Balance at start of the year	Granted during year as compensation	Other changes during year	Balance at end of the year
Non-executive Directors				
Richard Fisher	17,914	-	543	18,457
Richard Davis	521,607	-	(85,000)	436,607
Gary Stead	6,615	-	5,651	12,266
Joycelyn Morton	8,205	-	249	8,454
Robyn Stubbs	-	-	1,500	1,500
Bart Vogel	-	-	-	-
Executive Directors				
Martin Earp	29,545	9,258	2,815	41,618
Other key management personnel				
Josée Lemoine	2,931	3,201	-	6,132
Greg Bisset (resigned 30 September 2017)	68,002	-	-	68,002
Wee Leng Goh	13,634	3,380	(3,646)	13,368
Graeme Rhind	10,983	-	(10,983)	-

Note 7: Key Management Personnel Disclosures continued

(b) Equity instrument disclosures relating to key management personnel continued

(iii) Share options

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

	Balance at start of the year	Granted during year as compensation	Other changes during year	Balance at end of the year
Executive Directors				
Martin Earp	160,313	133,284	-	293,597
Other key management personnel				
Josée Lemoine	14,754	46,075	-	60,829
Greg Bisset (resigned 30 September 2017)	37,533	-	-	37,533
Wee Leng Goh	20,946	16,221	-	37,167
Graeme Rhind	14,416	-	(14,416)	-

(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

Upon resignation, Mr. Bisset purchased a motor vehicle with market value of \$30,000 for \$100.

There were no other transactions with key management personnel of the Group, including their personally related parties, during 2017 or 2016.

Note 8: Share-based Payments

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

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

This plan provides share rights and options to senior staff and is heavily weighted towards options so employees are incentivised to maximise shareholder value in the longer term. The plan was introduced during 2016 and is described more fully in the Remuneration Report. For senior staff it replaces the schemes previously used and more fully described below. As the plan permits settlement in either equity or cash, at the Board's discretion, it is treated as a cash-settled plan. The fair value of the instruments in the plan was determined at 31 December 2016 and 31 December 2017 based on the following inputs:

	Options	Rights
Share Price at Grant Date	\$12.08	\$12.08
Share Price at 31 December 2016	\$13.87	\$13.87
Exercise Price	\$12.08	-
Annualised Risk Free Rate	2.76%	2.76%
Volatility	25.00%	25.00%
Compound Dividend Yield	3.00%	3.00%
Fair Value at 31 December 2016	\$3.35	\$12.97
	Options	Rights
Share Price at Grant Date	\$14.06	\$14.06
Share Price at 31 December 2017	\$16.10	\$16.10
Exercise Price	\$14.06	-
Annualised Risk Free Rate	2.59%	-
Volatility	25.00%	-
Compound Dividend Yield	3.00%	-
Fair Value at 31 December 2017	\$3.84	\$15.08

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 8: Share-based Payments continued

(b) Deferred Employee Share Plan (“DESP”)

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

(c) Share Appreciation Rights (“SARs”)

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

(d) Exempt Employee Share Plan (“EESP”)

Australian based permanent employees with more than six-months service and a salary less than \$180,000 per annum are annually offered the opportunity to acquire \$1,000 worth of InvoCare Limited shares via a salary sacrifice arrangement as permitted by Australian Taxation Legislation. During 2017, 385 employees accepted the offer and at 31 December 2017 a further \$216,246 was remaining to be collected via payroll deductions.

(e) Expense

	2017 \$'000	2016 \$'000
Long-term incentive bonus expense	2,051	1,656

(f) Awards Outstanding as at 31 December 2016 and 31 December 2017:

	PLTIP Options	PLTIP Rights	DESP	SARs
Outstanding at January 2016	-	-	310,266	41,268
Granted during the year	504,270	108,782	17,544	384
Vested during the year	-	-	(88,485)	(11,918)
Forfeited during the year	(5,399)	(1,073)	(37,293)	-
Balance as at 31 December 2016	498,871	107,709	202,032	29,734
Granted during the year	441,292	49,097	20,318	331
Vested during the year	-	-	(88,264)	(15,520)
Forfeited during the year	(43,660)	(8,785)	(27,436)	-
Balance as at 31 December 2017	896,503	148,021	106,650	14,545

Note 9: Remuneration of Auditors

	2017 \$	2016 \$
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	405,900	400,900
PricewaterhouseCoopers – non-Australian firm		
Audit and review of financial reports	31,420	29,935
Non-PricewaterhouseCoopers – Singaporean firm		
Audit and review of financial reports	27,677	31,008
Total remuneration for audit services	464,997	461,843
(b) Non-audit services		
PricewaterhouseCoopers – Australian firm		
Assurance services	27,250	26,350
Taxation services	48,000	51,250
Other services	173,820	69,500
PricewaterhouseCoopers – non-Australian firms		
Taxation services	57,760	63,763
Other services	3,489	17,144
Non-PricewaterhouseCoopers – Singaporean firm		
Other services	13,136	16,206
Total remuneration for non-audit services	323,455	244,213

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 10: Dividends

	2017 \$'000	2016 \$'000
Dividends paid		
Final ordinary dividend for the year ended 31 December 2016 of 25.50 cents (2015: 22.25 cents) per fully paid share paid on 7 April 2017 (2015: 8 April 2016), fully franked based on tax paid at 30% (2015: 30%)	28,058	24,482
Interim ordinary dividend for the year ended 31 December 2017 of 18.50 cents (2016: 17.00 cents) per share paid on 6 October 2017 (2016: 7 October 2016), fully franked based on tax paid at 30% (2016: 30%)	20,353	18,706
Dividends paid to members of InvoCare Limited	48,411	43,188
On 21 December 2017 dividend totalling 9.57 cents per fully paid share, fully franked based on tax paid at 30%, was paid to non-controlling interests (2016: 15.45 cents per share paid on 16 June 2016 and 12 December 2016)	76	123
	48,487	43,311
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 27.50 cents (2016: 25.50 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 6 April 2018 out of 2017 profits, but not recognised as a liability at year end is:	30,258	28,058
Franking credit balance		
The amounts of franking credits available for subsequent financial years are:		
Franking account balance at the end of the financial year	35,985	28,120
Franking credits that will arise from the payment of income tax payable at the end of the financial year	10,713	4,227
Reduction in franking account resulting from payment of proposed final dividend of 27.50 cents (2016: 25.50 cents)	(12,968)	(12,025)
	33,730	20,322

Note 11: Earnings per Share

	2017 \$'000	2016 \$'000
Reconciliation of Earnings to Profit and Loss		
Profit from ordinary activities after income tax	97,562	71,048
Less profit attributable to non-controlling interests	(123)	(99)
Profit used to calculate basic and diluted EPS	97,439	70,949
	2017 Number	2016 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	109,784,439	109,671,454
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	110,701,058	109,906,820
	2017 cents	2016 cents
Earnings per share for profit attributable to the ordinary equity holders of the Company		
Basic earnings per share (cents per share)	88.8	64.7
Diluted earnings per share (cents per share)	88.0	64.6

Note 12: Cash and Cash Equivalents

	2017 \$'000	2016 \$'000
Cash on hand	81	87
Cash at bank	15,450	11,441
	15,531	11,528

Cash at bank attracts floating interest rate of 0.00% (2016: 0.00%)

Note 13: Trade and Other Receivables

	2017 \$'000	2016 \$'000
Current		
Trade receivables	45,875	43,786
Provision for doubtful receivables	(2,587)	(2,279)
Prepayments	4,731	5,758
Other receivables	1,298	1,291
	49,317	48,556
Non-current		
Trade receivables	30,464	26,772
Provision for doubtful receivables	(5)	(2)
Security deposits	492	1,206
	30,951	27,976

(a) Impaired receivables

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

	2017 \$'000	2016 \$'000
As at 1 January	2,281	2,269
Provision for impairment recognised during the year	589	649
Receivables written off as uncollectible	(278)	(637)
As at 31 December	2,592	2,281

Note 14: Inventories

	2017 \$'000	2016 \$'000
Current		
Finished goods – at cost	27,353	24,641
Work in progress – at cost	1,780	1,097
	29,133	25,738

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Note 15: Prepaid Contracts

(a) Income statement impact of undelivered prepaid contracts

	2017 \$'000	2016 \$'000
Gain on prepaid contract funds under management	73,503	39,426
Change in provision for prepaid contract liabilities	(10,187)	(16,498)
Net gain on undelivered prepaid contracts	63,316	22,928

(b) Movements in prepaid contract funds under management

	2017 \$'000	2016 \$'000
Balance at the beginning of the year	473,056	422,284
Sale of new prepaid contracts	38,758	46,669
Initial recognition of contracts paid by instalment	3,798	3,930
Redemption of prepaid contract funds following service delivery	(43,290)	(39,253)
Increase in fair value of contract funds under management	73,503	39,426
Balance at the end of the year	545,825	473,056

(c) Movements in prepaid contract liabilities

	2017 \$'000	2016 \$'000
Balance at the beginning of the year	438,028	408,448
Sale of new prepaid contracts	38,758	46,669
Initial recognition of contracts paid by instalment	3,798	3,930
Decrease following delivery of services	(38,687)	(37,517)
Increase due to re-evaluation of delivery obligation	10,187	16,498
Balance at the end of the year	452,084	438,028

(d) Classification of prepaid funds under management and liabilities

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

(e) Nature of contracts under management and liabilities

Prepaid contracts are tripartite agreements, currently entered into and performed in Australia only, whereby InvoCare agrees to deliver a specified funeral service, cremation or burial at the time of need and the beneficiary invests the current price of the service to be delivered with a financial institution and conditionally assigns the benefit to InvoCare. InvoCare records the value of the invested funds as an asset and revalues the invested funds to fair value at the end of each reporting period. InvoCare also records a liability at the current selling price of the service to be delivered and adjusts this liability for the change in selling prices during the period.

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

As generally required by law, most of the funds are controlled by trustees who are independent of InvoCare.

InvoCare permits, on request, contracts to be paid by instalments over periods not exceeding three years. In some instances these contracts are never fully paid. If, during the three-year period the contract becomes at-need, the family is given the option of either paying outstanding instalments and receiving the contracted services at the original fixed price or using the amount paid as a part payment of the at-need service. If the contract is not fully paid after three years InvoCare only permits the family to use the amounts paid as a partial payment of the at-need services. At the end of the year the total balance of amounts received from instalment payments for incomplete contracts was \$7.4 million (2016: \$7.0 million). 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 \$73.5 million in prepaid contract funds under management (2016: \$39.4 million) was greater than the non-cash growth due to selling price increases of \$10.2 million in the liability for future service delivery obligations (2016: \$16.5 million).

Note 16: Interests in Other Entities: Subsidiaries

(a) Interests in subsidiaries

Set out below are the Group's principal trading subsidiaries at 31 December 2017. 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	
			2017 %	2016 %
InvoCare Australia Pty Limited	Australia	Funeral services provider	100	100
Bledisloe Australia Pty Ltd	Australia	Funeral services provider	100	100
InvoCare New Zealand Limited	New Zealand	Funeral services provider	100	100
Singapore Casket Company (Private) Limited	Singapore	Funeral services provider	100	100

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

InvoCare Australia Pty Limited, InvoCare (Singapore) Pty Limited and Bledisloe Australia Pty Ltd have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission. For further information refer to Note 31.

(b) Significant restrictions

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

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

One subsidiary, Macquarie Memorial Park Pty Limited, has non-controlling interests of 16.86% (2016: 16.86%). During the year dividends totalling \$76,000 were paid to non-controlling interests (2016: \$123,000).

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Note 17: Interests in Other Entities: Associates

(a) Interests in associates

- (i) Set out below is the associate of the Group at 31 December 2017. The entity listed below has share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also its principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held. The interest held in this entity is not material to the Group.

Name of entity	Country of incorporation	Nature of relationship	Measurement method	% of ownership interest		Carrying Amount	
				2017 %	2016 %	2017 \$'000	2016 \$'000
HeavenAddress Pte. Ltd	Singapore	Associate	Equity method	34.59	34.59	-	-

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

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

The Group has no commitments or contingent liabilities in respect of its associates at 31 December 2017 (2016: Nil).

(b) Impairment

As at 31 December 2015 the recoverable amount of the Group's investment in its associate was nil as a result of impairment write downs in 2015 and 2014. The decision to impair this investment was made after considering the business performance to date, its future cash projections and the risks associated with a start-up operation. A review of the associate's performance in 2017 was carried out and no reversal of previous impairment write down was deemed necessary.

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

Sensitivities were conducted on a number of variables including revenue growth and discount rates. Given the start-up nature of the business, more weight was placed on the existing business than on future opportunities when developing growth scenarios. A pre-tax rate of 17.8% (2016: 17.8%) was used to discount the cash projections. This is higher than the 10.9% rate used for valuing existing business assets and reflects the greater risk associated with a start-up investment. From these scenarios, a mid-point was selected which is in a range of possible future outcomes. The Group will continue to monitor its investment in the associate for indicators of any future impairment reversals.

Note 18: Property, Plant and Equipment

	Cemetery land \$'000	Freehold land \$'000	Buildings \$'000	Leasehold land and buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
At 1 January 2017							
Cost	112,234	85,422	142,479	4,534	8,859	143,712	497,240
Accumulated depreciation / amortisation	(7,939)	-	(57,752)	(3,191)	(3,610)	(88,364)	(160,856)
Impairment write-downs	(4,376)	-	-	-	-	-	(4,376)
Net book amount	99,919	85,422	84,727	1,343	5,249	55,348	332,008
Year ended 31 December 2017							
Additions	543	9,055	18,911	-	7,208	23,094	58,811
Disposals	-	(576)	(252)	-	(388)	(1,258)	(2,474)
Depreciation/amortisation & impairment charge	(11,336)	-	(4,552)	(176)	(760)	(14,325)	(31,149)
Effect of movement in exchange rates	(197)	(663)	(717)	22	(104)	(352)	(2,011)
Transfers/reclassifications	-	(460)	-	-	-	-	(460)
Closing net book amount	88,929	92,778	98,117	1,189	11,205	62,507	354,725
At 31 December 2017							
Cost	112,578	92,778	157,853	4,534	15,471	154,881	538,095
Accumulated depreciation / amortisation	(8,373)	-	(59,736)	(3,345)	(4,266)	(92,374)	(168,094)
Impairment write-downs	(15,276)	-	-	-	-	-	(15,276)
Net book amount	88,929	92,778	98,117	1,189	11,205	62,507	354,725
At 1 January 2016							
Cost	111,588	85,164	137,741	4,534	7,510	128,857	475,394
Accumulated depreciation / amortisation	(7,399)	-	(53,505)	(3,005)	(3,268)	(81,593)	(148,770)
Impairment write-downs	(4,376)	-	-	-	-	-	(4,376)
Net book amount	99,813	85,164	84,236	1,529	4,242	47,264	322,248
Year ended 31 December 2016							
Additions	550	-	5,311	-	2,220	24,869	32,950
Disposals	-	-	(675)	-	(586)	(2,534)	(3,795)
Depreciation/amortisation & impairment charge	(540)	-	(4,436)	(176)	(660)	(14,323)	(20,135)
Effect of movement in exchange rates	96	258	291	(10)	33	72	740
Closing net book amount	99,919	85,422	84,727	1,343	5,249	55,348	332,008
At 31 December 2016							
Cost	112,234	85,422	142,479	4,534	8,859	143,712	497,240
Accumulated depreciation / amortisation	(7,939)	-	(57,752)	(3,191)	(3,610)	(88,364)	(160,856)
Impairment write-downs	(4,376)	-	-	-	-	-	(4,376)
Net book amount	99,919	85,422	84,727	1,343	5,249	55,348	332,008

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:

	2017 \$'000	2016 \$'000
Freehold buildings	6,083	694
Leasehold improvements	1,238	521
Plant and equipment	7,708	514
Cemetery land	-	543
Total assets in the course of construction	15,029	2,272

(b) Impairment

All cemetery and crematorium sites were reassessed at 31 December 2017 using the previously applied methodology and it is taking a conservative approach to recognise a net impairment loss of \$10.9 million. The net amount consists of a \$12.0 million write down for Allambe Gardens Memorial Park, reflecting a recent strategic review and the updating of long term modelling for the site, offset by \$1.1 million reversal of a previous impairment write down for Mt Thompson Memorial Gardens, reflecting improvements in the financial performance at that site.

Recent strong sales at Allambe have prompted reassessment of the land available for memorialisation plots. The residual land available requires remediation before further memorialisation plots can be developed. Development approval has been obtained from the local council and planning is underway to develop additional memorialisation plots. The related investment case is being finalised and expected to be approved in the first half of 2018. Remediation will follow shortly thereafter. Once this work has been completed, the recoverable amount of the park will be reassessed.

No other changes to the impairment provision were deemed necessary.

The following table summarises the impairment losses/reversals along with the recoverable amount estimates for the individual sites for 2017 and 2016:

Site Name	Impairment Loss / (Reversal)		Recoverable Amount Estimates	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Allambe Gardens Memorial Park, Queensland	12,000	-	5,500	17,500
Mt Thompson Memorial Gardens, Queensland	(1,100)	-	16,400	15,300
Tweed Heads Memorial Gardens, New South Wales	-	-	2,100	2,100
	10,900	-	24,000	34,900

The impairment losses recognised over the years may be reversed in future years. The Group has no impairment provisions for 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%, considered to be within the reasonably possible range of long-term outcomes. This analysis demonstrates that changing the assumptions is unlikely to result in a material change in the currently recognised impairment losses. The pre-tax discount rate used was 10.9% (2016: 10.9%), reflecting the risk estimates for the business as a whole.

(c) Asset held for sale

Asset held for sale represents property identified as surplus to Group's requirement pursuant to the Network and Brand Optimisation Phase 1 review carried out as part of the Protect and Grow plan. Similarly asset held for sale in 2016 represented properties identified as surplus to Group's requirement and were disposed during the course of 2017.

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Note 19: Intangible Assets

	Goodwill \$'000	Brand name \$'000	Total \$'000
At 1 January 2017			
Cost	147,872	12,991	160,863
Accumulated amortisation	-	(8,368)	(8,368)
Net book amount	147,872	4,623	152,495
Year ended 31 December 2017			
Disposal of subsidiary / businesses	(1,562)	(21)	(1,583)
Effect of movement in exchange rates	(2,622)	(91)	(2,713)
Amortisation charge	-	(1,011)	(1,011)
Net book amount	143,688	3,500	147,188
At 31 December 2017			
Cost	143,688	12,733	156,421
Accumulated amortisation	-	(9,233)	(9,233)
Net book amount	143,688	3,500	147,188
At 1 January 2016			
Cost	146,975	12,909	159,884
Accumulated amortisation	-	(7,133)	(7,133)
Net book amount	146,975	5,776	152,751
Year ended 31 December 2016			
Impairment write-downs	(154)	-	(154)
Effect of movement in exchange rates	1,051	47	1,098
Amortisation charge	-	(1,200)	(1,200)
Net book amount	147,872	4,623	152,495
At 31 December 2016			
Cost	147,872	12,991	160,863
Accumulated amortisation	-	(8,368)	(8,368)
Net book amount	147,872	4,623	152,495

(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. New Zealand and Singapore operations are separate CGUs and the associated goodwill arising from their acquisition have been allocated to the individual New Zealand or Singapore CGU. As a result, the lowest level within the Group at which goodwill is monitored for management purposes comprises the grouping of all CGUs within a country of operation. The recoverable amounts of the total of Australian, New Zealand and Singapore CGUs are based on value-in-use calculations. These calculations use cash flow projections based on approved financial estimates covering a five-year period. Cash flows beyond the five-year period have been extrapolated using estimated growth rates. The assessment also considered the reasonable possible long-term shift in key assumptions which will not cause further impairment.

\$1.6 million in disposal of subsidiary / businesses relates to sale of Group's operations in USA and an immaterial operation in Australia.

(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% (2016: 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 and Singapore compared to the carrying value of goodwill.

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Note 20: Derivative Financial Instruments

	2017 \$'000	2016 \$'000
Current liabilities		
Interest rate swap contracts – cash flow hedges	507	966
	507	966
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	1,490	1,774
	1,490	1,774

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

Note 21: Trade and Other Payables

	2017 \$'000	2016 \$'000
Current		
Trade payables	41,898	32,683
Sundry payables and accrued expenses	11,856	11,796
Deferred cash settlement for business interests acquired	182	192
	53,936	44,671
Non-current		
Deferred cash settlement for business interests acquired	-	91
	-	91

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

	2017 \$'000	2016 \$'000
Long-term borrowings		
Borrowings are represented by:		
Principal amount of bank loans – unsecured	243,984	235,203
Loan establishment costs	(906)	(748)
	243,078	234,455

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

Note 23: Provisions for Employee Benefits

	2017 \$'000	2016 \$'000
Current		
Employee benefits	15,170	14,511
Non-current		
Liability for long service leave	3,581	3,029

	2017 Number	2016 Number
(a) Employee numbers		
Number of full-time equivalent employees	1,644	1,566

(b) Superannuation plan

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

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

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

	Total current liability		Expected to settle within twelve months	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Trade and other payables	53,936	44,671	53,936	44,671
Current tax liabilities	12,037	9,935	12,037	9,935
Prepaid contract liabilities	38,949	37,595	38,949	37,595
Deferred revenue	11,500	10,243	11,500	10,243
Employee benefits	15,170	14,511	9,514	8,476
	131,592	116,955	125,936	110,920

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

Notes to the Consolidated Financial Statements continued

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Note 25: Contributed Equity

	2017 \$'000	2016 \$'000
Fully paid ordinary shares	136,344	134,914

	2017 Number	2017 \$'000	2016 Number	2016 \$'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))	215,496	(514)	(331,724)	(1,944)
Total consolidated contributed equity	110,245,794	136,344	109,698,574	134,914

(a) Ordinary shares

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

Note 25: Contributed Equity continued

(b) Treasury shares

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

Date	Details	Number of shares	\$'000
1 January 2016	Balance	444,300	3,164
18 January 2016	Forfeitures on termination of employment	(13,186)	(144)
25 February 2016	Shares vested	(88,481)	(861)
26 February 2016	Forfeitures on termination of employment	(972)	(11)
8 April 2016	Forfeitures on termination of employment	(811)	(9)
11 April 2016	Forfeitures on termination of employment	(2,701)	(31)
1 July 2016	Forfeitures on termination of employment	(259)	(2)
18 July 2016	Forfeitures on termination of employment	(11,787)	(136)
31 July 2016	Shares vested	(364)	(5)
1 August 2016	Transfer of shares to members of the EESP	(24,081)	(354)
26 August 2016	Forfeitures on termination of employment	(810)	(9)
1 December 2016	Forfeitures on termination of employment	(1,158)	(14)
7 December 2016	Forfeitures on termination of employment	(1,662)	(21)
16 December 2016	Forfeitures on termination of employment	(3,599)	(41)
30 December 2016	Forfeitures on termination of employment	(348)	(5)
31 December 2016	Movement in unallocated shares held by the Trust	37,643	423
31 December 2016	Balance	331,724	1,944
21 February 2017	Shares vested	(63,364)	(760)
23 February 2017	Shares vested	(24,900)	(283)
28 February 2017	Forfeitures on termination of employment	(20,630)	(290)
28 March 2017	Forfeitures on termination of employment	(442)	(4)
26 May 2017	Forfeitures on termination of employment	(348)	(5)
27 June 2017	Forfeitures on termination of employment	(348)	(5)
30 June 2017	Forfeitures on termination of employment	(737)	(12)
7 July 2017	Forfeitures on termination of employment	(737)	(12)
19 July 2017	Forfeitures on termination of employment	(345)	(5)
16 August 2017	Transfer of shares to members of the EESP	(26,634)	(387)
18 September 2017	Forfeitures on termination of employment	(1,947)	(25)
30 September 2017	Forfeitures on termination of employment	(1,557)	(20)
17 November 2017	Forfeitures on termination of employment	(345)	(5)
31 December 2017	Movement in unallocated shares held by the Trust	26,106	383
31 December 2017	Balance	215,496	514

(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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 26: Reserves and Retained Profits

	2017 \$'000	2016 \$'000
(a) Reserves		
Share-based payments reserve	1,039	1,849
Hedging reserve – cash flow hedge reserve	(1,355)	(1,844)
Foreign currency translation reserve	5,362	7,339
	5,046	7,344
Movements:		
Share-based payments reserve		
Balance at the beginning of the year	1,849	2,165
Deferred employee share plan expense	233	550
Vesting of deferred employee share plan shares	(1,043)	(866)
Balance at the end of the year	1,039	1,849
Hedging reserve		
Balance at the beginning of the year	(1,844)	(2,892)
Revaluation to fair value – gross	689	1,467
Deferred tax	(200)	(419)
Balance at the end of the year	(1,355)	(1,844)
Foreign currency translation reserve		
Balance at the beginning of the year	7,339	6,256
Currency translation differences	(1,977)	1,083
Balance at the end of the year	5,362	7,339
(b) Retained profits		
Movements in retained profits were as follows:		
Balance at the beginning of the year	90,815	63,054
Net profit for the year	97,439	70,949
Dividends paid during the year	(48,411)	(43,188)
Balance at the end of the year	139,843	90,815

(c) Nature and purpose of reserves

(i) Share-based payments reserve

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

(ii) Hedging reserve – cash flow hedge reserve

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

(iii) Foreign currency translation reserve

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

Note 27: Non-Controlling Interests

	2017 \$'000	2016 \$'000
Reconciliation of non-controlling interests in controlled entities:		
Share capital	800	800
Retained earnings		
Balance at the beginning of the year	238	262
Add share of operating earnings	123	99
Less dividends paid	(76)	(123)
Closing balance of retained earnings	285	238
Reserves	99	99
Balance at the end of the year	1,184	1,137

Note 28: Capital and Leasing Commitments

	2017 \$'000	2016 \$'000
(a) Operating lease commitments		
Non-cancellable operating leases contracted for at the reporting date but not capitalised in the financial statements:		
Payable – minimum lease payments		
- not later than 12 months	11,791	11,289
- between 12 months and five years	27,988	24,353
- greater than five years	6,468	8,447
	46,247	44,089

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	10,992	799	11,791
Between 12 months and five years	25,717	2,271	27,988
Greater than five years	6,468	-	6,468
	43,177	3,070	46,247

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 28: Capital and Leasing Commitments continued

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

	2017 \$'000	2016 \$'000
(a) Capital expenditure commitments		
Capital expenditure commitments contracted or conditionally contracted at the reporting date but not recognised as liabilities payable:		
Building purchase – within one year	14,155	6,600
Building extensions and refurbishments – within one year	1,289	705
Plant and equipment purchases – within one year	5,141	528
(b) Other expenditure commitments		
Documentary letters of credit outstanding at balance date payable:		
- within one year	39	113

Note 29: Contingent Liabilities and Contingent Assets

	2017 \$'000	2016 \$'000
The Group had contingent liabilities at 31 December in respect of bank guarantees given for leased premises of controlled entities to a maximum of:	1,702	1,510

For information about the deed of cross guarantee given by InvoCare Limited, InvoCare Australia Pty Limited, InvoCare (Singapore) Pty Limited, Bledone Pty Ltd and Bledisloe Australia Pty Ltd, refer to Note 31.

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

Note 30: Cash Flow Information

(a) Reconciliation of cash flow from operations with profit from ordinary activities after income tax

	2017 \$'000	2016 \$'000
Profit from ordinary activities after income tax	97,439	70,949
Non-cash items in profit from ordinary activities		
Depreciation, amortisation and impairment	21,260	21,489
Reversal of impairment loss	(1,100)	-
Cemetery land impairment charge	12,000	-
Share-based payments expense	2,051	1,656
Loan establishment costs	404	384
Imputed interest from deferred purchase consideration	5	10
Net (gain) / loss on disposal of property, plant and equipment	(3,350)	676
Unrealised (gain) on prepaid contracts	(63,316)	(22,928)
Other prepaid contract movements	4,610	1,814
Business acquisition costs classified in investing activities	392	79
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase) / decrease in trade and other receivables	(7,800)	(12,512)
(Increase) / decrease in inventories	(3,395)	(1,287)
(Increase) / decrease in deferred selling expenses	(301)	(453)
Increase / (decrease) in trade and other payables	(3,372)	5,276
Increase / (decrease) in deferred revenue	2,375	3,343
Increase / (decrease) in income taxes payable	2,102	(176)
Increase / (decrease) in deferred taxes	14,365	4,642
Increase / (decrease) in provisions	1,211	5,534
	75,580	78,496

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Cash and cash equivalents \$'000	Borrowings \$'000	Total \$'000
Net debt as at 1 January 2017	11,528	(234,455)	(222,927)
Cash flows	4,071	(10,953)	(6,882)
Foreign exchange adjustments	(68)	2,330	2,262
Net debt as at 31 December 2017	15,531	(243,078)	(227,547)

	Cash and cash equivalents \$'000	Borrowings \$'000	Total \$'000
Net debt as at 1 January 2016	8,679	(230,772)	(222,093)
Cash flows	2,923	(2,235)	688
Foreign exchange adjustments	(74)	(1,448)	(1,522)
Net debt as at 31 December 2016	11,528	(234,455)	(222,927)

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 31: 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 ASIC Corporations Instrument 2016/785 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 2017 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

	2017 \$'000	2016 \$'000
Consolidated income statement of the Closed Group		
Revenue from continuing operations	373,621	369,619
Finished goods and consumables used	(97,826)	(99,743)
Employee benefits expense	(98,011)	(94,572)
Employee related and on-cost expenses	(26,223)	(24,300)
Advertising and public relations expenses	(12,619)	(11,745)
Occupancy and facilities expenses	(21,612)	(21,348)
Motor vehicle expenses	(7,101)	(6,297)
Other expenses	(10,928)	(13,418)
	99,301	98,196
Depreciation, impairment and amortisation expenses	(16,705)	(16,545)
Reversal of impairment loss	(19,767)	-
Finance costs	(9,277)	(11,106)
Interest income	996	932
Net gain / (loss) on prepaid contracts	63,316	22,928
Acquisition costs	(391)	(53)
Inter-segment revenue	1,731	2,095
Net gain / (loss) on disposal of non-current assets	3,283	(445)
Profit before income tax	122,487	96,002
Income tax expense	(39,087)	(25,785)
Profit for the year	83,400	70,217
Changes in the fair value of cash flow hedges, net of tax	270	1,015
Changes in foreign currency translation reserve, net of tax	(247)	331
Other comprehensive income for the year, net of tax	23	1,346
Total comprehensive income for the year	83,423	71,563
Summary of movements in consolidated retained profits of the Closed Group		
Retained profits at the beginning of the financial year	95,419	68,390
Profit for the year	83,400	70,217
Dividends paid	(48,411)	(43,188)
Retained profits at the end of the financial year	130,408	95,419

Note 31: Deed of Cross Guarantee continued

(b) Balance sheet of the Closed Group

	2017 \$'000	2016 \$'000
Current assets		
Cash and cash equivalents	5,867	1,219
Trade and other receivables	42,540	42,226
Inventories	25,773	22,059
Prepaid contract funds under management	46,247	39,260
Asset held for sale	460	2,519
Deferred selling costs	1,725	1,537
Total current assets	122,612	108,820
Non-current assets		
Trade and other receivables	52,649	44,344
Shares in subsidiaries	132,337	138,789
Property, plant and equipment	274,869	259,577
Prepaid contract funds under management	499,578	433,796
Intangible assets	7,623	11,238
Deferred selling costs	9,172	9,068
Total non-current assets	976,228	896,812
Total assets	1,098,840	1,005,632
Current liabilities		
Trade and other payables	45,707	37,177
Derivative financial instruments	-	966
Current tax liabilities	10,597	8,409
Prepaid contract liabilities	38,749	37,379
Deferred revenue	11,500	10,243
Provisions for employee benefits	14,042	13,109
Total current liabilities	120,595	107,283
Non-current liabilities		
Long-term borrowings	195,303	181,064
Derivative financial instruments	1,265	685
Deferred tax liabilities	51,386	36,242
Prepaid contract liabilities	413,135	400,433
Deferred revenue	50,397	49,317
Provisions for employee benefits	3,380	2,861
Total non-current liabilities	714,866	670,602
Total liabilities	835,461	777,885
Net assets	263,379	227,747
Equity		
Contributed equity	136,344	134,914
Reserves	(3,373)	(2,586)
Retained profits/(Accumulated losses)	130,408	95,419
Total equity	263,379	227,747

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 32: Events after the Balance Sheet Date

The Group's debt facilities were renegotiated in the latter part of 2017 and settled on 16 February 2018. The new facilities provide a revolving facility of \$200 million in multi currencies for three years, a fixed \$150 million facility not subject to repayment for five years and a \$100 million fixed note facility for ten years which is borrowed in Australian dollars without the need for hedging.

Other than the above, no significant subsequent events, not otherwise disclosed, have occurred since 31 December 2017.

Note 33: Related Party Transactions

(a) Parent entity

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

(b) Subsidiaries

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

(c) Directors and key management personnel

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

(d) Transactions with related parties

	2017 \$	2016 \$
Transactions with other related parties		
Contributions to superannuation funds on behalf of employees	9,448,677	8,823,797

(e) Guarantees and other matters

Under the terms of common terms deed executed on 20 December 2013 and amended on 22 December 2015, InvoCare Limited and its material wholly-owned entities (the "Guarantors") have individually guaranteed to the financiers the due and punctual payment in full of any liabilities or obligations under the debt facilities provided under the terms of individual Facility Agreements. The Guarantors have also indemnified the financiers against any loss or damage suffered by the financiers arising from any failure by a borrower or any Guarantor to satisfy the obligations.

Note 34: Parent Entity Financial Information

(a) Summary financial information

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

	2017 \$'000	2016 \$'000
Balance sheet		
Current assets	-	131
Total assets	459,202	404,463
Current liabilities	11,144	9,898
Total liabilities	176,946	165,373
<i>Shareholders' equity</i>		
Contributed equity	136,344	134,914
Reserves		
Share-based payments	1,039	1,849
Hedging reserve – cash flow hedge reserve	(885)	(1,156)
Foreign currency translation reserve	1,080	1,080
Retained earnings	144,678	102,403
Total shareholders' equity	282,256	239,090
Profit for the year after tax	90,686	71,831
Total comprehensive income for the year	90,146	72,530

(b) Contingent liabilities of the parent entity

	2017 \$'000	2016 \$'000
The parent entity had contingent liabilities at 31 December in respect of bank guarantees given for leased premises of controlled entities to a maximum of:	1,702	1,510

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

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

The parent entity has no contractual commitments for the acquisition of property, plant or equipment at 31 December 2017 (31 December 2016: Nil).

(d) Tax consolidation legislation

InvoCare Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 January 2004.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing and funding agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity InvoCare Limited.

This agreement was updated on 5 June 2007 and provides that the wholly-owned entities will continue to fully compensate InvoCare Limited for any current tax payable assumed and be compensated by InvoCare Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to InvoCare Limited under the tax consolidation legislation.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. InvoCare Australia Pty Limited, as permitted by the tax funding agreement, acts on behalf of InvoCare Limited for the purpose of meeting its obligations to make tax payments, or receive refunds, and reimburses, or is compensated by, that entity through the intercompany loan account for amounts of tax paid, or received, except for the tax allocated to that entity.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

Note 35: 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 \$153,834,000 as outlined in Note 2(c), or by on-demand repayment of intercompany advances.

Note 36: 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 \$48.9 million at 31 December 2017 (2016: \$46.5 million).

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

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

Actual redemptions information is being collated for a sample of sites in order to determine a more accurate historical pattern of cemetery/crematorium prepaid sale redemptions. The information collated to date suggests there is no material misstatement of revenue using the assumed 15-years period. The impact of recognising revenue over five years less (or five years more) than 15-years would be to increase annual revenue by approximately \$3.6 million (decrease by \$1.8 million).

Note 37: Company Details

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

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

Level 2, 40 Miller Street
North Sydney NSW 2060

Note 38: Authorisation of the Financial Report

This financial report was authorised for issue by the directors on 19 February 2018. 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 45 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 2017 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 31 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 31.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Richard Fisher
Director



Martin Earp
Director

Sydney
19 February 2018



Independent auditor's report

To the members of InvoCare Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of InvoCare Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended
2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2017
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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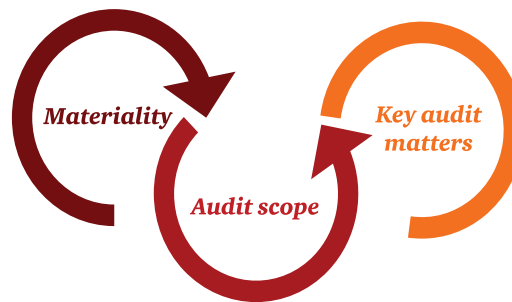
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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$5.4 million, which represents approximately 5% of the Group's average profit before tax of the past three years. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. Due to fluctuations in profit and loss from year to year, we chose a three year average. There is no common materiality threshold within the funeral services industry so we selected 5% which is within the range of commonly acceptable quantitative profit related materiality thresholds used for publicly listed entities. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The Group has operations within Australia, New Zealand, Singapore, Hong Kong and for part of the year, in the USA, with the accounting functions led from the Group's corporate head office in Sydney, Australia. We conducted an audit of the financial information of the Australian and New Zealand operations given their financial significance to the Group. As shown in note 3 of the financial report, the Australian and New Zealand operations account for 96% of revenue and 95% of Operating EBITDA of the Group. The scale of operations in other territories is, in our view, insignificant to the overall results of the Group, and as such, we performed specific risk-focused audit procedures over those operations. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit, Risk & Compliance Committee: <ul style="list-style-type: none"> Cemetery land impairment and reversal assessment Accounting for prepaid funeral contracts Revenue recognition (other than prepaid funeral contracts - refer key audit matter 2 above) These are further described in the <i>Key audit matters</i> section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p>Cemetery land impairment and reversal assessment</p> <p><i>Refer to Note 1(j), Note 18(b) and Note 36(ii).</i></p> <p>We considered this a key audit matter due to the size of the Cemetery land balance (historical cost of \$112.6 million as at 31 December 2017) and because the directors' assessment of the recoverable amount of the Group's Cash Generating Units (CGU's – typically defined as physical Cemetery/Crematoria locations) involves significant judgements about the future results of the business and the discount rates applied to future cash flow forecasts.</p> <p>In particular, we focused our audit effort on the carrying value of previously impaired sites at Allambe Gardens Memorial Park, Mount Thompson Memorial Gardens and Tweed Heads Memorial Gardens. At 31 December 2017 the directors determined that additional impairment of \$12.0 million was required for Allambe Gardens Memorial Park, that the previous impairment remaining for Mount Thompson Memorial Gardens (\$1.1 million) should be reversed, and that no change is required to the carrying value of Tweed Heads Memorial Gardens.</p> <p>Allambe experienced above budget sales in 2017 and has limited land available for future memorialisations. Without redevelopment, the park is expected to reach capacity by 2023. At 31 December 2017 no such redevelopment had commenced, and the Group's impairment modelling indicated that the carrying value of the site needed to be impaired by \$12.0 million.</p> <p>Mount Thompson Memorial Gardens completed and released the City View Terraces during 2017 and demonstrated that the recoverable amount of the site now supports a reversal of previous impairment losses.</p> <p>Tweed Heads was impaired by \$1.2 million in 2013 and its carrying value is being closely monitored by the Group for further indicators of impairment or reversal of impairment. At 31 December 2017 there has been no change to the carrying value of Tweed Heads.</p> <p>The remaining Cemetery land values have been assessed for internal and external indicators of impairment. No other indicators of impairment were identified by the Group.</p>	<p>To evaluate the Group's future cash flow forecasts and the process by which they were drawn up, we performed the following procedures amongst others:</p> <ul style="list-style-type: none"> • Considered an independent range of possible revenue growth rates, expected death rate and weighted average cost of capital. We found the rates used by the Group were consistent with board approved budgets and fell within an acceptable range. • Compared the prior year cash flow forecast to current year actual results. We found that the assumptions and expectations used in the forecast were materially consistent with the actual results. • Considered whether the Group had identified all relevant locations for impairment testing, by considering both the Group's own internal assessment and our assessment of potential indicators for impairment. No new or different locations were identified. <p>For Allambe, Mount Thompson and Tweed Heads, we also performed the following procedures amongst others over the Group's valuation models:</p> <ul style="list-style-type: none"> • Compared long term growth rates used by the Group to economic and industry forecasts and found that they were consistent. • Assessed the discount rate used by the Group by forming an independent expectation of what the cost of capital would be with reference to comparable organisations and independent broker reports. • Assessed the proposed reversal of impairment to determine that the revised carrying value would not exceed the carrying value (net of depreciation) that would have been determined had no impairment loss been recognised. <p>We considered the sensitivity calculations performed by the Group over all their CGUs by varying critical inputs into the valuation model by plus or minus 10% and assessing how the calculations would change. We determined that the calculations were most sensitive to assumptions for revenue growth rates and discount rates and as such, focused our testing on these assumptions. We found that these assumptions were consistently applied and in line with our expectations which were based on historical experience and industry performance.</p>

Key audit matter	How our audit addressed the key audit matter
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Accounting for prepaid funeral contracts

Refer to note 1(n) and note 15.

The Group enters into prepaid funeral contracts whereby they agree to deliver a specified funeral, cremation or burial service at the time of need. The beneficiary invests the current price of the service to be delivered with a financial institution and conditionally assigns the benefit to the Group. For each prepaid funeral contract, the Group records an asset for the value of the funds invested (funds under management) and a liability to deliver the services.

As at 31 December 2017, InvoCare had recorded \$545.8 million of funds under management and \$452.1 million of contract liabilities.

We considered prepaid funeral contracts to be a key audit matter due to the:

- Size of the asset and liability balances
- Significant time difference that may arise between receipt of cash from customers and the subsequent recognition of revenue on the delivery of services (redemption date)
- Potential for deliberate manipulation or error in the timing of recording revenue arising from the:
- high volume of transactions, contracts (over 87,000 active contracts) and different asset management trusts (29 trusts)
- manual translation, into the accounting records, of the assets balances held in the trusts.

Revenue recognition (other than prepaid funeral contracts - refer key audit matter 2 above)

Refer to note 1(e), note 1(aa) and note 4.

We considered the recognition of revenue to be a key audit matter as revenue is comprised of a number of different streams, some of which can be complex (specifically, large memorials e.g. Crypts or multiple plot sales, timing of deferred plaque and miscellaneous merchandise revenue and payments by instalment). Complexity can arise from a significant difference between the timing of receipt of cash from customers and the subsequent recognition of revenue from funeral service and memorial delivery.

New area of focus:

From 1 January 2018, the Group will be transitioning to AASB 15 *Revenue from Contracts with Customers* which will replace AASB 118 *Revenue* and AASB 111 *Construction Contracts*. As a result, the Group expects to change their revenue accounting policy in future reporting periods. In accordance with Australian Accounting Standards, the Group is

For the asset value invested, we performed the following procedures amongst others:

- Agreed the balances recorded by the Group to statements and confirmation balances received from independent custodians indicating that assets were recorded accurately and in the correct period.

For the liability recognised, we performed the following procedures amongst others:

- Considered whether the Group’s methodology used to measure prepaid contract liabilities had been consistently applied
- Tested the mathematical accuracy of the calculations used in the application of price increases on service delivery obligations
- Selected a sample of new contracts issued and contract redemptions and compared the date and value to that recorded by the Group. We found the sample tested to be accurate and recorded or redeemed in the correct period.

For the revenue recognised, we performed the following procedures amongst others:

Compared the redemption dates and values for a sample of prepaid funeral contracts against the dates and values at which the revenue had been recorded. We found that the revenue had been recorded accurately and in the appropriate period for the sample tested.

To evaluate the Group’s revenue recognition policies and that revenue was recognised is in accordance with those policies, we performed the following procedures amongst others:

We developed an understanding of the key controls associated with revenue recognition. This included testing key Inventory and Accounts Receivable reconciliations at 31 December 2017 by agreeing material reconciling items to supporting documents. We found the controls were suitable for the purpose of our audit.

For a sample of revenue transactions, we compared the delivery dates against the date on which the revenue had been recorded, and compared the invoice amount with the revenue recognised. We found that revenue had been recorded accurately in the correct period and in accordance with the Group’s accounting policy for the sample tested.

To evaluate the disclosures about the possible impact of AASB 15, we performed the following procedures amongst others:

- Developed an understanding and evaluated the Group’s assessment of the revenue streams and

Key audit matter

required to disclose the impact of accounting standards issued but not yet applied. Accordingly, the Group has disclosed information relevant to the possible impacts of AASB 15 (“impacts”) from 1 January 2018 within Note 1(aa).

To prepare these disclosures, significant judgement was required by the Group in assessing each material revenue stream and contract type under AASB 15. The Group identified 3 areas of impact: Administration fees, Cemetery and Crematoria memorial contracts and the recognition of a financing charge on deferred revenues.

How our audit addressed the key audit matter

contract types in line with the 5 step model required by AASB 15 (the “assessment”).

- Agreed a sample of revenue contracts to the 5 step model in the assessment to evaluate whether the assessment was complete and accurate. For a sample of open contracts that will be impacted by AASB 15, we reperformed the calculation of the impact of AASB 15 and agreed the contract amount to the assessment.
- We agreed the disclosures related to the transition impact in Note 1(aa) to the Group’s assessment.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group’s annual report for the year ended 31 December 2017, but does not include the financial report and our auditor’s report thereon. Prior to the date of this auditor’s report, the other information we obtained included the directors’ report. We expect the remaining other information to be made available to us after the date of this auditor’s report, including the Performance Highlights, Community Activities, Management Team, Chairman’s Message, Chief Executive Officer’s Review, Corporate Governance Statement, Shareholder Information, InvoCare Locations and Corporate Information, which are expected to be made available to us after the date of this auditor’s report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 32 to 43 of the directors' report for the year ended 31 December 2017.

In our opinion, the remuneration report of InvoCare Limited for the year ended 31 December 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.



PricewaterhouseCoopers



MW Chiang

Partner

Sydney

19 February 2018

Shareholder Information

Shares and options as at 23 March 2018

	Number
Shares on issue	110,030,298
Options on issue	896,503

Distribution of shareholders as at 23 March 2018

	Number of shareholders	Number of shares	Percentage %
1 - 1,000	9,352	4,525,949	4.11%
1,001 - 5,000	8,663	20,588,966	18.71%
5,001 - 10,000	1,419	10,372,788	9.43%
10,001 - 100,000	662	14,152,207	12.86%
100,001 and over	40	60,390,388	54.89%
	20,136	110,030,298	100.00%

There were 377 holders of less than a marketable parcel of ordinary shares (being 37 based on a price of \$13.30 on 23 March 2018) who hold a total of 6,499 ordinary shares.

Equity security holders

	Number of shares	Percentage %
Largest 20 holders of ordinary shares at 23 March 2018		
1. HSBC Custody Nominees (Australia) Limited	23,794,130	21.63%
2. J P Morgan Nominees Australia Limited	13,098,533	11.90%
3. Citicorp Nominees Pty Limited	5,406,995	4.91%
4. InvoCare Employee Share Plan Account	2,195,691	2.00%
5. Argo investments limited	2,182,191	1.98%
6. Milton Corporation Limited	1,950,914	1.77%
7. BKI Investment Company Limited	1,491,474	1.36%
8. Australia Foundation Investment Company Limited	1,150,000	1.05%
9. Australian United Investment Company Limited	1,000,000	0.91%
10. National Nominees Limited	945,580	0.86%
11. BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	803,681	0.73%
12. Netwealth Investment Limited (Wrap Services A/C)	633,931	0.58%
13. IOOF Investment Management Limited (IPS Super A/C)	628,196	0.57%
14. BNP Paribas Nominees Pty Ltd (DrP)	490,199	0.45%
15. Citicorp Nominees Pty Limited (Colonial First State INV A/C)	485,157	0.44%
16. HSBC Custody Nominees (Australia) Investments Limited - A/C 2	435,216	0.40%
17. Gwynvill Trading Pty Ltd	415,643	0.38%
18. BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd Drp	383,693	0.35%
19. Mr Richard Hugh Davis	350,000	0.32%
20. Navigator Australia Ltd (Mlc Investment Sett A/C)	318,139	0.29%
Total for top 20	58,159,363	52.86%

Substantial holders

	Number of shares held	Percentage %
Substantial holders in the Company as at 23 March 2018 are set out below:		
AustralianSuper Pty Ltd	6,653,235	6.05%
Mondrian Investment Partners Limited	12,007,408	10.91%

Voting Rights

The voting rights attaching to each class of security are set out below:

Ordinary Shares

On a show of hands, each member present in person and each other person present as a proxy of a member has one vote. On a poll, each member present in person has one vote for each fully paid share held by the member and each person present as a proxy of a member has one vote for each fully paid share held by the member that the proxy represents.

Glossary

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACCC	Australian Competition & Consumer Commission
AIFRS	The Australian equivalents to International Reporting Standards for annual reporting periods beginning on or after 1 January 2005
ASX	Australian Securities Exchange which is the operating brand of ASX Limited
ASX Corporate Governance Principles and Recommendations	The eight essential corporate governance principles and best practice recommendations of the ASX Corporate Governance Council 3rd Edition 2014
Cemetery	A place for burials and memorialisation
CGU	A cash-generating unit which is the smallest identifiable group of assets that independently generates cash in flows
Condolence Lounge	A facility for family and friends to gather at after the funeral service – usually offering a catering service
Constitution	The Constitution of the Company
Crematorium	A place for cremations and memorialisation
Crypts	Above ground burial facilities
DRP	Dividend Reinvestment Plan
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EEO	Equal Employment Opportunity
EPS	Earnings Per Share
Funeral Arrangement	The process in which the funeral service is planned and necessary documentation prepared
Funeral Home	The InvoCare location where a funeral can be arranged and where some services can be conducted
Memorial or Memorialisation	The physical marker or tribute to the life of the deceased
Memorial Park	An InvoCare location offering cremation, burial and memorialisation services
Non-operating earnings before tax	Earnings from the net gain/(loss) on prepaid contracts, asset sales gains/ (losses), commissions received, less costs associated with the administration prepaid contracts, share of profits attributable to non-controlling interests and any other unusual items as disclosed in the relevant reconciliations.
Operating Earnings	Earnings before the net/gain(loss) on prepaid contracts, asset sales gains/ (losses), commissions received, costs associated with the administration of prepaid contracts, share of profits attributable to non-controlling interests and any other unusual items as disclosed in the relevant reconciliations.
Operating sales revenue	Sales revenue from external customers adjusted to remove the impact of prepaid contract redemptions.
PCP	Prior comparative period.
Prepaid Cemetery and Crematorium Services	Cemetery and crematorium services that have been arranged and paid for in advance
Prepaid Funeral Fund	The fund where prepaid funeral monies are held in trust until the funeral service is provided
Volume	A term that refers to the number of funeral services, burials and cremations performed
VWAP	Volume Weighted Average Price a trading benchmark used to determine the face value of an InvoCare share. VWAP is calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day.

Contemporary – Australia and New Zealand					
New South Wales	Queensland	Victoria	South Australia	New Zealand	
<p>Guardian Funeral Providers Guardian Funerals Ballina Bankstown Blacktown Burwood Campbelltown Casino Cremorne Hurstville Leppington Lidcombe Lismore Merrylands Minchinbury North Ryde Parramatta Rockdale</p> <p>Hansen & Cole Funerals (est 1936) Bulli Kembla Grange Wollongong</p> <p>J W Chandler Funerals (est 1885) Richmond Windsor</p> <p>Boland Funerals (est 1962) Maroubra</p> <p>Tobin Brothers Funerals (est 1946) Queanbeyan</p>	<p>Other Providers Allan Drew Funerals (est 1985) Castle Hill Rouse Hill</p> <p>Ann Wilson Funerals (est 1995) Dee Why Mona Vale</p> <p>David Lloyd Funerals (est 1885) Adamstown Belmont Beresfield Toronto</p> <p>Liberty Funerals (est 1994) Chatswood¹ Granville</p> <p>Universal Chung Wah (est 1955) Fairfield</p> <p>W N Bull (est 1892) Newtown Parramatta</p>	<p>George Hartnett Funerals (est 1947) Holland Park Kelvin Grove Redcliffe Sandgate Wynnum</p> <p>George Hartnett Metropolitan Funerals (est 1941) Albany Creek Cleveland</p> <p>Metropolitan Funerals (est 1941) Aspley Mt Gravatt Petrie Redcliffe Toowong Wynnum</p> <p>Other Providers Drysdale Funerals (est 1983) Nambour Tewantin</p> <p>Somerville Funerals (est 1932) Nerang Southport¹</p> <p>Somerville Funerals incorporating Metropolitan Funerals Southport</p> <p>City Funeral Services (est 1959) Mackay</p> <p>Gatton Funerals (est 1983) Gatton</p> <p>Hiram Philp Funerals (est 1903) Toowoomba</p> <p>Mackay Funerals (est 1884) Mackay</p> <p>Burkin Svendsens (est 1884) Cairns</p>	<p>Le Pine including Le Pine Heritage (est 1891) Box Hill Camberwell Croydon Dandenong Eltham Ferntree Gully Footscray West Glen Waverley Greensborough Healesville Ivanhoe Kew East Lilydale Mordialloc Oakleigh Pakenham</p> <p>Le Pine Asian Funerals Glen Waverley West Footscray</p> <p>W D Rose (est 1884) Brighton Burwood Cheltenham</p> <p>Joseph Allison (est 1853) Brunswick Essendon</p> <p>Other Providers Mulqueen Funerals (est 1932) Coburg</p> <p>Southern Cross (est 1998) Noble Park</p> <p>Tuckers Funeral & Bereavement Service (est 1883) Geelong West Grovedale Highton Lara</p> <p>Werribee Funerals Werribee</p> <p>Charles Crawford & Son Melton</p>	<p>Blackwell Funerals (est 1940) Aberfoyle Park Glenside Paradise Payneham Prospect Torrensville</p>	<p>North Island Forrest Funeral Services (est 1978) Browns Bay Orewa</p> <p>Fountain's Funeral Services (est 1956) Manurewa Papakura</p> <p>Sibuns Funeral Directors (est 1913) Remuera</p> <p>H Morris Funerals (est 1933) Northcote</p> <p>Lychgate Funeral Home (est 1876) Johnsonville Karori Wellington</p> <p>Resthaven Funerals (est 2000) Howick Manurewa</p> <p>Gee & Hickton (est 1946) Lower Hutt Porirua Upper Hutt Akatarawa Crematorium</p> <p>James R Hill (est 1965) Hamilton</p> <p>Pellows Funeral Directors (est 1963) Hamilton</p> <p>Elliotts Funeral Services (est 1967) Kati Kati Mt Maunganui Tauranga</p> <p>Beth Shan Funeral Directors (est 1977) Hastings Napier</p> <p>Cleggs Funeral Services (est 1919) Hawera</p> <p>Vospers (est 1933) New Plymouth</p> <p>Wairarapa Funeral Services (est 1938) Masterton</p>
			<p>Tasmania</p> <p>Turnbull Family Funerals (est 1936) North Hobart</p>		
	<p>Western Australia</p> <p>Purslowe Funerals (est 1907) Victoria Park Wangara</p> <p>Purslowe & Chipper Funerals Fremantle Mandurah Midland North Perth</p> <p>Other Providers Oakwood Funerals (est 1999) Booragoon Rockingham</p> <p>Chipper Funerals (est 1889) Myaree Rockingham Subiaco</p> <p>Christian Funerals (est 1978) Maylands</p>		<p>New Zealand</p> <p>South Island John Rhind Funeral Directors (est 1881) Christchurch Kaiapoi</p> <p>Academy Funeral Services (est 1982) Christchurch</p> <p>Geoffrey T Sowman (est 1869) Blenheim</p> <p>Sowman Memorials Blenheim</p>		
<p>Australian Capital Territory</p> <p>Tobin Brothers Funerals (est 1946) Belconnen Kingston Tuggeranong</p>					

1. Temporarily closed for refurbishment.

Simplicity Funerals (est 1979)

New South Wales		Queensland	Victoria	South Australia	Western Australia
Balgowlah Bankstown Bateau Bay Erina Hornsby Liverpool Mascot Miranda Newcastle* Newtown Penrith Randwick Roseville Chase	Ryde Smithfield South Sydney* Toukley East Tweed Heads Woy Woy Wyong	Buranda Ipswich Kedron Logan Parkwood Robina Sunshine Coast*	Bayswater Carnegie Frankston Pascoe Vale Reservoir Sunshine Werribee	Black Forest Brahma Lodge Enfield Gawler Morphett Vale Rosewater Victor Harbor	Joondalup Kelmescott Mandurah Osborne Park Southern Region*
	ACT			Tasmania	New Zealand
	Canberra*			Hobart*	Christchurch Nelson New Lynn Royal Oak Wellington*

* Mobile Arranger

White Lady Funerals (est 1987)

New South Wales		Queensland	Victoria	South Australia	Western Australia
Bankstown Belmont Bondi Junction Bulli Camden Charlestown Charmhaven Eastwood Five Dock Liverpool Mayfield Mosman	Narrabeen Northern Rivers Pennant Hills Penrith Queanbeyan Rockdale Roseville Salamander Bay Sutherland Toronto Tweed Heads Wyoming	Ashmore Cairns Caloundra Chelmer Clayfield Kelvin Grove Miami Morningside Nambour Tanah Merah Warana	Burwood Doncaster Epping Glen Huntly Heathmont Heidelberg Mornington Niddrie Rosebud South Melbourne	Glenside Hillcrest Plympton	Operating as Mareena Purslowe Funerals
				Tasmania	Fremantle Midland Mandurah North Perth Subiaco Victoria Park Wangara
				North Hobart	
				Australian Capital Territory	
				Belconnen Kingston Tuggeranong	

Singapore

Singapore Casket Company (est 1920)	Simplicity Casket Company (est 2009)
Lavender Street Mount Vernon	Sin Ming Drive

Cemeteries and Crematoria

New South Wales	Queensland	Western Australia
Castlebrook Memorial Park (est 1973) Forest Lawn Memorial Park (est 1962) Lake Macquarie Memorial Park (est 1994) Lakeside Memorial Park (est 1964) Lung Po Shan Information Centre (est 2000) Newcastle Memorial Park (est 1936) Northern Suburbs Memorial Gardens and Crematorium (est 1933) Pinegrove Memorial Park (est 1962) Po Fook Shan Information Centre (est 2002) Rookwood Memorial Gardens and Crematorium (est 1925) Tweed Heads Memorial Gardens & Crematorium (est 1971)	Rouse Hill Leppington Ryhope Dapto Haymarket Beresfield North Ryde Minchinbury Cabramatta Rookwood Necropolis Tweed Heads	Albany Creek Memorial Park (est 1964) Allambe Memorial Park & Crematorium (est 1968) Great Southern Memorial Gardens & Crematorium (est 1997) Mt Thompson Memorial Gardens & Crematorium (est 1934) Toowoomba Garden of Remembrance & Crematorium (est 1966)
		Bridgeman Downs Nerang Carbrook Holland Park Toowoomba
		New Zealand
		Christchurch Christchurch
		Harewood Memorial Gardens & Crematorium (est 1963) Woodlawn Memorial Gardens & Crematorium (est 1936)

Corporate Information

InvoCare Limited

ABN 42 096 437 393

Directors

Richard Fisher (Chairman)
Martin Earp (Managing Director
and Chief Executive Officer)
Richard Davis (Non-executive Director)
Joycelyn Morton (Non-executive
Director)
Gary Stead (Non-executive Director)
Robyn Stubbs (Non-executive Director)
Bart Vogel (Non-executive Director)

Company Secretary

Phillip Friery

Registered Office

Level 2, 40 Miller Street
North Sydney NSW 2060
Telephone: 02 9978 5200
Facsimile: 02 9978 5299
Website: www.invocare.com.au

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Toll free: 1300 854 911
Facsimile: 02 9287 0303

Stock Exchange Listing

InvoCare Limited is a company
limited by shares that is incorporated
and domiciled in Australia.
InvoCare Limited's shares are listed
on the Australian Securities Exchange
only. ASX code is IVC.

Auditors

PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay, Barangaroo
Sydney NSW 2000

Solicitors

Addisons Lawyers
Level 12
60 Carrington Street
Sydney NSW 2000

Anthony Harper Lawyers
Level 6, Chorus House
66 Wyndham Street
Auckland New Zealand

Financiers

Australia and New Zealand
Banking Group Limited
242 Pitt Street
Sydney NSW 2000

ANZ Bank New Zealand Limited
ANZ Centre
23-29 Albert Street
Auckland New Zealand

HSBC Bank Australia Limited
Tower 1 - International Towers Sydney
100 Barangaroo Avenue
Sydney NSW 2000

The Hongkong and Shanghai
Banking Corporation
1 Queen Street
Auckland New Zealand

MetLife Investment Advisors, LLC
One MetLife Way
Whippany, New Jersey USA 07981

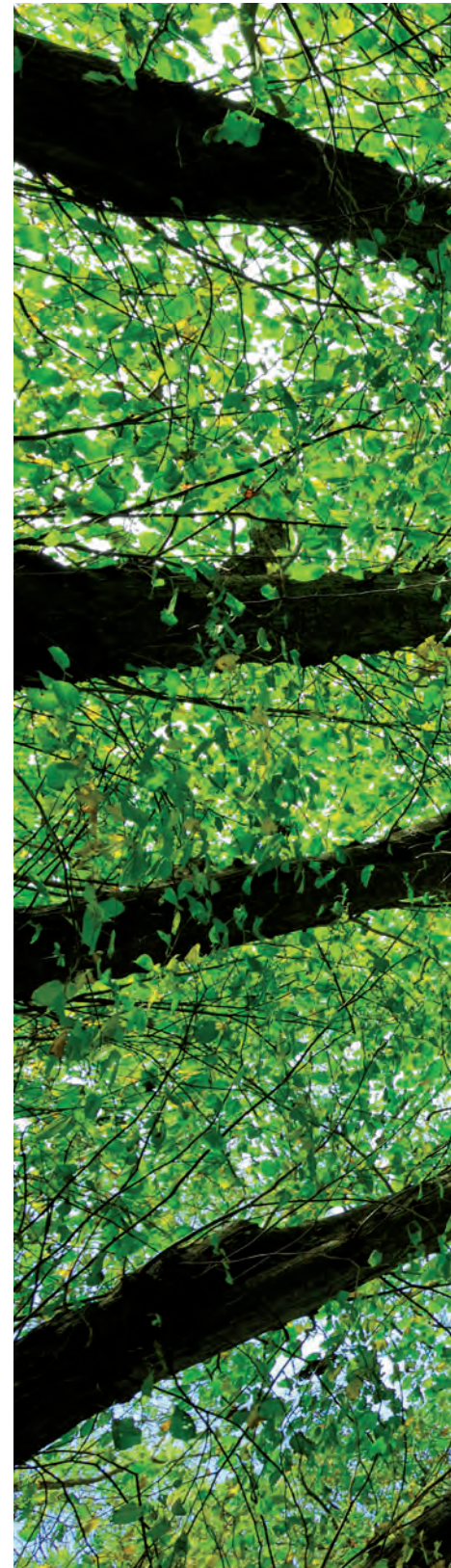
Mizuho Bank, Ltd.
60 Margaret Street
Sydney NSW 2000

Sumitomo Mitsui Banking Corporation
2 Chifley Square
Sydney NSW 2000

Westpac Banking Corporation
275 Kent Street
Sydney NSW 2000

Westpac New Zealand Limited
16 Takutai Square
Auckland New Zealand

Newly renovated locations:
Simplicity Funerals, Kallangur QLD;
Le Pine Funerals and White Lady
Funerals, Dandenong VIC; George
Hartnett Metropolitan Funerals,
North Lakes QLD.



invocare.com.au