InvoCare
Innovation Vocation Care

InvoCare Limited
ABN 42 096 437 393

Appendix 4D – Half-year Report
For the Half-year Ended 30 June 2013

Lodged with Australian Securities Exchange under Listing Rule 4.2A

Contents

InvoCare Limited

Appendix 4D

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Results for announcement to the market

Summary Results for announcement to market

	Compared to actual for previous half year ended 30 June 2012	Half Year Ended 30 June 2013 $'000
Total sales revenue	Up 5.1%	183,641
Total revenue from ordinary activities	Up 5.0%	187,078
Profit from ordinary activities after tax attributable to members	Up 5.6%	21,454
Net profit attributable to members	Up 5.6%	21,454
Operating earnings after tax (see note 1)	Down 9.1%	17,232

Dividends	**Amount per security**	**Franked Amount per security**
Interim dividend per ordinary share in respect of 31 December 2013 financial year **payable** on 4 October 2013 The **record date** for determining entitlements to the interim dividend and for DRP election is 13 September 2013	15.0 cents	15.0 cents

Note 1: This is non-IFRS financial information and is reconciled to statutory profit on page 2.

Dividends

The interim fully franked ordinary dividend in respect of the financial year ending 31 December 2013 amounts to 15.0 cents per share, which is no change from the interim dividend for the 2012 financial year.

Dividend Reinvestment Plan in Operation

The Company's Dividend Reinvestment Plan ("DRP") will apply to the above interim dividend. Eligible shareholders may elect to reinvest some or all their dividend in ordinary shares of the Company.

In the operation of the DRP, InvoCare may, in its discretion, either issue new shares or cause existing shares to be acquired in the market for transfer to shareholders, or a combination of both options. For the 2013 interim dividend, it is intended that the required shares will be purchased on market. Any shortfall in DRP take-up will not be underwritten nor will shares be issued with a discount to the market price. The market price will be calculated as the weighted average market price of trading in shares in the Company during the first ten (10) trading days after (but not including) the record date, 13 September 2013. The ex-dividend date to be entitled to the interim dividend is 9 September 2013.

In order to participate in the DRP, the Company's share registry must receive the election notice by the record date.

Brief Explanation

Refer to the section headed "Commentary on the Results" for an explanation of the results.

Attention is also drawn to the Media Release and Investor Presentation material released to the market with this Appendix 4D Half Year Report.

Result Highlights

Result highlights:	2013 $'000's	2012 $'000's	Change $'000's	%
Total sales to external customers	**183,641**	174,811	8,830	5.1%
Other revenue	3,437	3,354	83	2.5%
Operating expenses (i)	(145,787)	(135,539)	(10,248)	7.6%
Operating EBITDA (i)	**41,291**	**42,626**	(1,335)	(3.1%)
Operating Margin	*22.5%*	*24.4%*		*(1.9%)*
Depreciation and amortisation	(8,654)	(7,987)	(667)	8.4%
Finance costs	(8,350)	(8,092)	(258)	3.2%
Interest income	328	443	(115)	(26.0%)
Business acquisition costs	(221)	20	(241)	1205.0%
Share of loss from associates	(50)	-	(50)	-
Operating earnings before tax (i)	**24,344**	27,010	(2,666)	(9.9%)
Income tax on above operating earnings (i)	(7,112)	(8,060)	948	(11.8%)
Effective tax rate	*29.2%*	*29.8%*		*(0.6%)*
Operating earnings after tax (i)	**17,232**	18,950	(1,718)	(9.1%)
Operating earnings per share (i)	*15.8 cents*	*17.3 cents*	*-1.5 cents*	*(8.6%)*
Net gain or (loss) on undelivered prepaid contracts after tax (i)	840	(423)	1,263	298.6%
Asset sale gains after tax (i)	1,344	1,842	(498)	(27.0%)
Reversal of impairment loss	2,100	-	2,100	-
Non-controlling interest	(62)	(55)	(7)	12.7%
Net profit after tax attributable to InvoCare shareholders	21,454	20,314	1,140	5.6%
Basic earnings per share	*19.6 cents*	*18.6 cents*	*1.0 cents*	*5.4%*

(i) Non-IFRS financial information

Financial Overview

InvoCare's reported statutory profit after tax was up by 5.6% or $1.1 million to $21.5 million (2012: $20.3 million). However, the first half operating result was disappointing with operating earnings after tax[1] down by 9.1% or $1.7 million to $17.2 million (2012: $19.0 million).

The Company's emphasis is on improving its operating earnings in the second half. A portion of the first half decline, estimated at $0.6 million after tax, was due to lower numbers of deaths. However, the major cause of the decline from last year was increased costs, primarily from an investment in personnel for innovation and future growth. Salaries and wages expenses in the comparable business, excluding acquisitions, were $3.4 million after tax higher than last year. The Company was unable to react quickly enough to reduce costs when an unexpected sudden decline in funeral case volumes occurred in the month of June.

The reported statutory profit on the other hand benefited from the reversal of a previous cemetery asset impairment ($2.1 million after tax, 2012: $Nil), asset sale gains ($1.3 million after tax; 2012: $1.8 million) and an improvement in undelivered prepaid contract results (net gain of $0.8 million after tax: 2012 net loss $0.4 million). The main prepaid funeral fund incurred a $1.2 million after tax fair value write-down for acquisition costs relating to a property investment it made in the last week of June 2013. The Company had anticipated this write-down in its funds under management and was expecting this would be more than offset by a gain on sale settlement by 30 June 2013 of a surplus Victorian funeral home ($1.8 million pre tax). Unfortunately the settlement of the funeral home sale was delayed until 29 July 2013 and could not be recognised in the half year accounts.

The Company is pleased with the improved operating cash flows for the six months which has underpinned the ability to pay a fully franked interim dividend of 15.0 cents per share in line with last year.

[1] Operating earnings after tax and operating earnings per share are non-IFRS financial information.

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

The following table summarises sales revenue, EBITDA and margins.

	2013 $'million	2012 $'million	Change $'million	%
Sales Revenue				
Australia	**158.3**	155.2	3.0	2.0%
New Zealand	**14.8**	14.2	0.6	4.2%
Singapore	**6.5**	5.4	1.2	21.8%
Comparable businesses	**179.6**	174.8	4.8	2.7%
Acquisitions	**4.0**	-	4.0	-
Total InvoCare	**183.6**	174.8	8.8	5.1%
EBITDA				
Australia	**35.3**	36.9	-1.6	-4.4%
New Zealand	**2.2**	3.0	-0.7	-25.0%
Singapore	**3.1**	2.8	0.3	11.3%
Comparable businesses	**40.6**	42.6	-2.0	-4.8%
Acquisitions	**0.7**	-	**0.7**	-
Total	**41.3**	42.6	-1.3	-3.1%
Margin on sales				
Australia	**22.3%**	23.8%		-1.5%
New Zealand	**15.0%**	20.9%		-5.9%
Singapore	**47.4%**	51.9%		-4.5%
Comparable businesses	**22.6%**	24.4%		-1.8%
Acquisitions	**17.5%**	-		-
Total	**22.5%**	24.4%		-1.9%

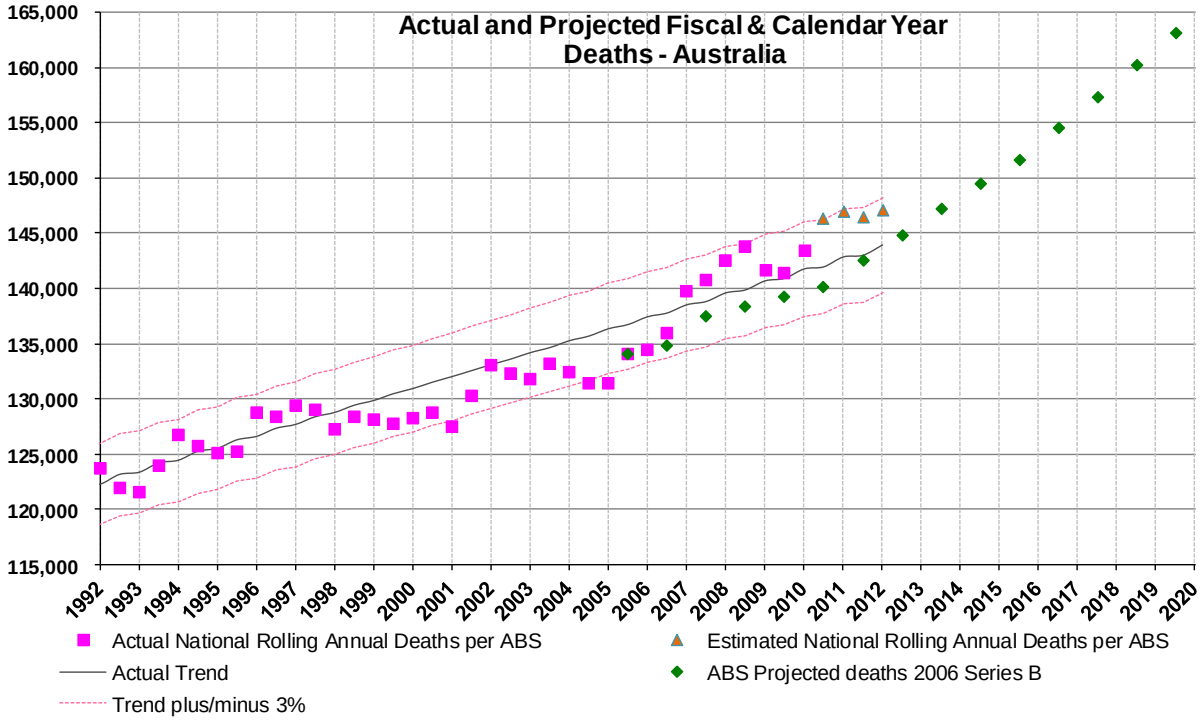
The following table shows Operating EBITDA components by major income statement line item, each as a percentage of sales and commentary is provided in the following pages.

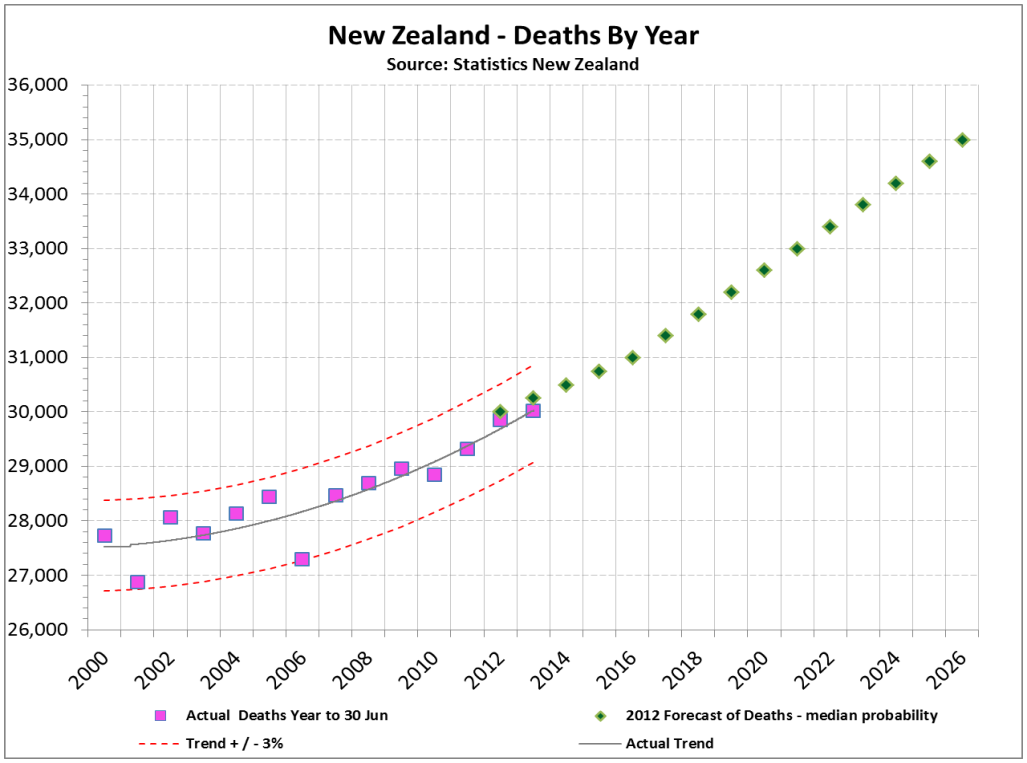
	2013 Actual $'m	% of Gross Sales	2012 Actual $'m	% of Gross Sales	Variance Act v LY $'m	%
Total - all lines of business						
Sales revenue	**183.6**	***100.0%***	**174.8**	***100.0%***	**8.8**	5.1%
Other revenue	3.4	*1.9%*	3.4	*1.9%*	0.1	2.5%
Finished Goods, Consumables & Funeral Disbursements	(53.9)	*29.4%*	(50.4)	*28.8%*	(3.5)	(6.9%)
Personnel	(60.0)	*32.7%*	(54.0)	*30.9%*	(6.0)	(11.1%)
Advertising & Public Relations Expense	(6.8)	*3.7%*	(6.3)	*3.6%*	(0.5)	(7.4%)
Occupancy & Facility Expenses	(12.7)	*6.9%*	(12.0)	*6.9%*	(0.7)	(5.7%)
Motor Vehicle Expenses	(4.0)	*2.2%*	(3.8)	*2.2%*	(0.2)	(4.5%)
Other Expenses	(8.4)	*4.6%*	(9.0)	*5.1%*	0.6	6.6%
Operating Expenses	(145.8)	*79.4%*	(135.5)	*77.5%*	(10.2)	(7.6%)
Operating EBITDA	**41.3**	***22.5%***	**42.6**	***24.4%***	**(1.3)**	(3.1%)
Operating Margin % on Sales revenue	*22.5%*		*24.4%*			(1.9%)

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

Number of deaths

As consistently reported to the market since InvoCare's initial public offering in late 2003, the number of deaths is a very significant driver of InvoCare's performance. The ageing of the population in InvoCare's markets and the long term trend of increasing numbers of deaths are major pillars of growth for the Group. However, short term fluctuations in the numbers of deaths do occur such that in any year the number can be up to 4% above or below the trend line, as shown in the following graphs for Australia and New Zealand.





The Group's operating costs are substantially fixed in nature and it is difficult to respond quickly to change the cost structure when significant short term fluctuations in the number of deaths occur. In such times, operating margins and profits are impacted, positively with higher deaths or negatively with lower. The Group's Australian (in particular Sydney) and New Zealand markets have experienced a sudden decline in the number of deaths in June 2013 which has impacted the first half results.

Across the Group, funeral case volumes in comparable businesses declined by 0.7% on the corresponding previous half year. At the end of April the comparable funeral case volume was up 1.3% on the prior corresponding period ("PCP"), but over the months of May and June the volume was 4.2% below the same two months of 2012. The following table provides an indication of the significant short term movements experienced since April compared to the previous corresponding periods in 2012.

Funeral Case Volume analysis			
	Apr YTD % change	May & June % change	Jun YTD % Change
Australia	1.1%	-2.7%	-0.3%
New Zealand	4.2%	-14.4%	-2.7%
Australia & New Zealand	1.4%	-4.1%	-0.6%
Singapore	-2.0%	-5.1%	-3.0%
Total comparable business	1.3%	-4.2%	-0.7%
Total Group (including acquisitions)	4.0%	-1.5%	2.0%

InvoCare's New South Wales cemeteries and crematoria have experienced volume declines similar to the funeral business.

Singapore, on the other hand, has been experiencing an increasing rather than decreasing number of deaths. InvoCare's case volume declines in Singapore are market share related.

The reasons for the significant declines in Australia and New Zealand are unknown. However, possible contributing factors may be that both Australia and New Zealand are currently experiencing mild winters and neither country has seen the onset of usual levels of winter influenza. Historically, the number of deaths generally peak during the winter months. It is also interesting to note that in England and Wales, contrary to experience in InvoCare's Australian and New Zealand markets, the number of deaths has suddenly risen in 2013, reportedly by more than 5%, which is the subject of further investigation by health authorities.

Commentary on the period since 30 June 2013 is set out in the Outlook section of this Appendix 4D.

Sales

Key components of the comparable sales movements are summarised below:

- Comparable Australian funeral sales increased 3.0% or $3.7 million to $127.5 million (2012: $123.8 million).
  - Average revenue per funeral case, excluding disbursements, increased 3.6%.
  - The number of funeral services performed was down on the previous year by 0.3% causing approximately $0.3 million reduction in sales revenue. Estimated market share is marginally up on PCP but has declined from the end of 2012, which is not

inconsistent with past experience in times of lower numbers of deaths when smaller competitors more aggressively discount.

- The number of new prepaid funeral contracts sold for comparable Australian business increased by 7.6% on the previous year and exceeded the number of prepaid services performed by 17.0% (2012: 14.3%). Prepaid funerals performed in the year were 14.0% (2012: 13.3%) of comparable at need funerals.

- Australian cemeteries and crematoria sales were down by 1.6% or $0.6 million to $35.6 million (2012: $36.1 million). Of this reduction, $0.7 million more than the previous year was added to the deferred revenue pool (ie. reducing reported sales) because planned memorial construction was not achieved, in part due to prevailing wet weather conditions. There were 1.8% lower cremation and burial case volumes during the half, primarily related to lower numbers of deaths, and estimated overall market share has improved marginally. List prices were raised by an average 4% in early January for service fees and in early March for memorial products. However, cremation fee increases were generally lower, and as a consequence of cemetery and crematorium case volumes being skewed to cremations (approximately 90%, because four of InvoCare's parks only cater to cremations not burials), service fee revenues increased only marginally (by 0.5%). Memorial sales, including larger contracts over $15,000, were lower than anticipated, with a major contributor being the lower case volumes.
- Comparable New Zealand sales (in NZD) were down 0.6% or $0.1 million to $18.1 million (2012: $18.2 million). Average revenue per funeral increased by 3.0% following planned price increases but was offset by a decline in total funeral cases performed which were down 2.7%. Market share performance in New Zealand remains mixed with some solid performance in Auckland and the South Island offset by challenges in the rest of North Island with new competitors and increasingly price focused markets.
- Singapore funeral sales increased by 17.9% in local currency and 21.8% in Australian currency. Service volumes declined 2.9%, largely due to market share losses. However, more than offsetting the lower volumes was average revenue per case which was up 21.4% in local currency (25.6% in Australian currency). The increase in average revenue was attributed to a shift towards packaged funerals and the introduction of sales of funeral accessories which began in 2012.

The Tuckers and Resthaven funeral businesses were acquired in December 2012 and February 2013 respectively. Accordingly the 2013 H1 sales of the consolidated InvoCare business include growth from these acquisitions. During the first half these businesses contributed combined sales of AUD $4.0 million.

Other revenue

Other revenue increased by 2.5% or $0.1 million to $3.4 million. On a comparable basis, other revenue declined slightly by 1.1% to $3.3 million. Other revenue includes administration fees upon initial sale of prepaid funeral contracts, trailing commissions on prepaid funds and apprenticeship scheme funding from the Federal Department of Education, Employment and Workplace Relations. The decline in the comparative business was driven by lower funding from the apprenticeship scheme which is coming to an end in 2013.

Operating expenses and operating EBITDA

Operating EBITDA[2] declined by 3.1% or $1.3 million to $41.3 million (2012: $42.6 million). The margin on sales dropped 1.9% to 22.5%. On a comparable basis, Operating EBITDA declined by $2.0 million or 4.8% to $40.6 million (2012: $42.6 million) with margins dropping 1.8% to 22.6%.

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

Operating expenses (excluding depreciation, amortisation, acquisition related and finance costs) increased $10.2 million or 7.6% to $145.8 million. On a comparable basis excluding the impact of the Tuckers and Resthaven, the increase was 5.0% or $6.8 million.

A summary of the comparable business Operating EBITDA by major income statement line item, each as a percentage of sales, is presented in the following table.

	2013 Actual $'m	% of Gross Sales	2012 Actual $'m	% of Gross Sales	Variance Act v LY $'m	%
Total - all lines of business						
Sales revenue	**179.6**	***100.0%***	**174.8**	***100.0%***	**4.8**	2.7%
Other revenue	3.3	*1.8%*	3.4	*1.9%*	(0.0)	(1.1%)
Finished Goods, Consumables & Funeral Disbursements	(52.6)	*29.3%*	(50.4)	*28.8%*	(2.2)	(4.3%)
Personnel	(58.7)	*32.7%*	(54.0)	*30.9%*	(4.8)	(8.8%)
Advertising & Public Relations Expense	(6.6)	*3.7%*	(6.3)	*3.6%*	(0.3)	(4.9%)
Occupancy & Facility Expenses	(12.4)	*6.9%*	(12.0)	*6.9%*	(0.4)	(3.6%)
Motor Vehicle Expenses	(3.9)	*2.2%*	(3.8)	*2.2%*	(0.1)	(1.7%)
Other Expenses	(8.0)	*4.5%*	(9.0)	*5.1%*	0.9	10.5%
Operating Expenses	(142.3)	*79.2%*	(135.5)	*77.5%*	(6.8)	(5.0%)
Operating EBITDA	**40.6**	***22.6%***	**42.6**	***24.4%***	**(2.0)**	(4.8%)
Operating Margin % on Sales revenue	*22.6%*		*24.4%*			(1.8%)

Cost of goods sold increased as a % of gross sales from 11.9% in 2012 to 12.5% in 2013. Contributing to this increase was a shift in the mix of recognised cemetery and crematorium memorial sales towards lower margin products and the commencement of the lower margin funeral accessories business in Singapore. Funeral disbursements, net of intra group sales eliminations (ie. burial and cremation fees charged internally between operations), increased by $0.6 million and were 16.8% of sales (2012: 16.9%).

During the half, the ratio of personnel costs to sales revenue was 32.7% which was up from 30.9% in the PCP. Base labour rates have generally been contained to 3.5% increases, consistent with the awards and enterprise agreements in place for the majority of the workforce.

As previously reported, headcount increases occurred during 2012, and to a lesser extent in the first half of 2013, to support InvoCare's expansion, to pursue marketing and digital business initiatives and in anticipation of expected increases in the number of deaths (eg. approximately 1.2% in Australia) and growth in market share. This investment in personnel is in response to the Company's new digital business and marketing initiatives, the payback for which will be in future years. Within the corporate office the new Chief Information Officer and approximately 10 appointments were added at various times in the centralised finance, digital business, marketing and human resources teams, which added an estimated $0.6 million to the personnel cost increases. In operational areas, an estimated $1.3 million in additional payroll costs was due to headcount increases, including the General Manager for the cemeteries and crematoria business in Queensland, the Commercial Manager for the New Zealand operations and various new, or previously vacant, operational positions.

With full employment across the business, operational labour costs are relatively fixed. This is particularly so in New Zealand where staff are currently employed on fixed salary contracts. Australia is more flexible where casuals and overtime are used to meet peak demands. It is difficult to flex labour resources at short notice and the ratio of labour costs to sales is therefore very sensitive to sudden shifts in case volumes. This was illustrated in the month of June following the sudden decline in the number of deaths and the consequent loss of case volumes and sales. As a result, labour costs across the comparable business as a ratio of sales went from 32.1% YTD May to 32.7% by the end of June. To assist manage costs in an environment with lower than expected numbers of deaths, any vacancy

created by an employee departure is being critically assessed to determine if immediate replacement is required to maintain customer service standards.

Advertising and marketing expenditure increased by $0.3 million or 4.9% to $6.6 million (2012: $6.3 million). Whilst more had been planned, some curtailment of expenditure occurred given the flat trend in death numbers. Overall weighting in activity shifted towards digital media which was up $0.1m and there were increases in radio, press and outdoor. Work was also completed on a new television commercial which first went to air in April 2013.

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

- enhancing electronic processing capabilities, for example at need and preneed funeral arrangements using tablet technology,
- new websites, including MyGrief Assist providing information and resources dealing with grief and MyMemorial and FuneralOrganiser which assist families view funeral and memorial options and help generate sales leads,
- design and selection of improved audio visual capability for InvoCare's chapels,
- continued focus on obtaining greater leverage from the HeavenAddress on line memorial and tribute solution, and
- promotion and support of InvoCare's social media channels.

Telecommunications and printing services savings resulting from a strategic sourcing review and contract renegotiations have helped fund the digital business initiatives. All other expenses have been contained and compare relatively favourably to PCP.

The comparable Australian operating EBITDA margin on sales declined to 22.3% against the 23.8% achieved in 2012. The lower margins reflected the impact of the lower case volumes experienced in the later part of the half and the increased costs outlined above.

New Zealand comparative EBITDA margins on sales also declined from 20.9% of sales in 2012 to 15.0% in 2013. The declining margins again reflected the impact of lower case volumes which were down 2.7% and the additional headcount added in the second half of 2012.

Singapore margins declined from 51.9% to 47.4% of sales in both Australian and local currency. The margin decline reflected the change in product mix following the commencement of the lower margin funeral accessories business in 2012.

Depreciation and amortisation expenses

Depreciation and amortisation expenses were up $0.6 million in 2013 to $8.6 million (2012: $8.0 million). This increase included $0.2 million associated with the newly acquired Tuckers and Resthaven businesses. The remainder of the increase was associated with replacement motor vehicles (including hearses and the progressive replacement of the previously leased Bledisloe fleet), leasehold and owned property refurbishments and general operational plant and equipment purchases.

Finance costs

Finance costs increased by $0.3 million to $8.4 million (2012: $8.1 million). The increases relate primarily to the higher levels of debt used to fund the Tuckers and Resthaven acquisitions and the additional equity investment in HeavenAddress in January 2013. More information about the Group's debt and funding costs is set out under the Capital Management section.

Acquisition related costs

Acquisition related costs of $0.2 million were up $0.2 million on the first half 2012. These costs included expenses relating to the acquisition of Resthaven as well as ongoing costs

associated with the investigation and review of opportunities both closed or currently under investigation.

Share of associate

After contributing $5 million equity in January 2013, InvoCare has a 34% investment in HeavenAddress which provides on line memorial solutions. The company is in the early stages of its development and InvoCare has recognised its share of the small loss in accordance with equity accounting standard requirements.

Undelivered prepaid contract gains

Net gains on undelivered prepaid contracts were $1.2 million, an improvement of $1.8 million on the $0.6 million loss incurred in 2012. The current year gain comprised $8.8 million increase in the fair value of funds under management offset by $7.6 million growth in the future liability to deliver prepaid services (see table (a) below).

The gain of $8.8 million on funds under management was up $0.6 million on the corresponding period in 2012. This increase was net of approximately $1.6 million in transaction costs associated with an investment in a Sydney CBD office building by the main Guardian fund in June 2013.

During the first half, the preneed liability was increased to progressively recognise the impact of planned in year price increases. This resulted in growth of $7.6 million which was down on last year of $8.8 million. The higher growth in 2012 was the result of a change in the phasing of price increases which commenced in that period.

(a) Income statement impact of undelivered prepaid contracts

	2013 $'000	2012 $'000
Gain / (loss) on prepaid contract funds under management	**8,806**	8,208
Change in provision for prepaid contract liabilities	**(7,606)**	(8,813)
Net gain / (loss) on undelivered prepaid contracts	**1,200**	(605)

(b) Movements in prepaid contract funds under management

	2013 $'000	2012 $'000
Balance at the beginning of the year	**350,905**	311,763
Sale of new prepaid contracts	**16,079**	14,125
Initial recognition of contracts paid by instalment	**1,361**	1,114
Redemption of prepaid contract funds following service delivery	**(16,322)**	(12,484)
Increase in fair value of contract funds under management	**8,806**	8,208
Balance at the end of the half-year	**360,829**	322,726

(c) Movements in prepaid contract liabilities

	2013 $'000	2012 $'000
Balance at the beginning of the year	**355,090**	317,598
Sale of new prepaid contracts	**16,079**	14,125
Initial recognition of contracts paid by instalment	**1,361**	1,114
Decrease following delivery of services	**(16,327)**	(13,343)
Increase due to reassessment of delivery costs	**7,606**	8,813
Balance at the end of the half- year	**363,809**	328,307

Approximately 75% of InvoCare's prepaid funds under management are with the Over Fifty Guardian Friendly Society. This fund now holds approximately 60% of its assets in cash and fixed interest compared to 75% at 31 December 2012. During this time the Over Fifty Guardian Friendly Society has continued to diversify into property assets in order to secure future returns. This is required as existing investments in high yielding term deposits will begin to mature over the next couple of years.

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

	30 June 2013 %	31 Dec 2012 %	31 June 2012 %
Equities	10.0	8.0	6.0
Property	25.0	17.0	11.0
Cash and fixed interest	65.0	75.0	83.0

Asset sale gains and losses

Gains on the sale of assets included an after tax gain of $1.3 million for the sale of a small parcel of cemetery land in Sydney for road widening by a local authority. Despite expectations and previous advice to the market, the sale of a surplus funeral property in Melbourne was not settled by 30 June 2013. The sale has subsequently been completed in July 2013 resulting in a pre-tax gain of $1.8 million which will be included as part of the 2013 full year results.

Impairment reversal

Under IFRS, InvoCare is required to regularly review the carrying value of its business assets. As part of this process an impairment loss of $8.6m was previously taken up on certain cemetery land in Queensland. Due to the continued improvement in financial performance of the site, the prior impairment was partially reversed during the first half resulting in an after tax gain of $2.1m.

Income tax expense

Income tax expense on reported profit was $8.4 million (2012: $7.8 million), representing an effective rate of 28.1% (2012: 27.7%).

Income tax expense on operating earnings[3] decreased by $0.9 million to $7.1 million (2012: $8.1 million) and the effective rate was 29.2% (2012: 29.8%). The major difference between tax expense on reported profit and operating earnings was the tax effect on undelivered prepaid contracts and the tax effect of asset sales gains.

[3] Operating earnings is non-IFRS financial information

The main contributors to the effective rates being different to Australia's corporate 30% tax rate include the combined impacts of:

- 17% tax is payable on Singapore profits
- 28% tax is payable on New Zealand profits
- Carried forward capital losses offsetting capital gains

Cash flow highlights

	2013 $'m	2012 $'m
Net cash provided by operating activities	**32.9**	23.3
Asset sale proceeds	**1.7**	2.9
Asset purchases	**(8.5)**	(8.3)
Purchase of subsidiaries and businesses	**(1.7)**	-
Purchase of interest in associates	**(5.0)**	-
Net cash used in investing activities	**(13.5)**	(5.4)
Dividends paid	**(20.9)**	(17.9)
Deferred Employee Share Plan purchases	**(0.8)**	(1.3)
Net increase in borrowings	**2.8**	9.0
Net cash from / (used) in financing activities	**(18.9)**	(10.2)
Net increase / (decrease) in cash during year	**0.5**	7.7
Cash at start of year	**6.0**	5.9
Exchange rate effects	**0.1**	-
Cash at end of the half year	**6.6**	13.6

Cash flows provided by operating activities were up on last year by $9.6 million to $32.9 million, which resulted from the benefit of improved working capital management (by $6.0 million), in particular creditor payments, and lower income tax payments (by $3.8 million), the latter arising mainly from a higher final Australian 2011 year income tax payment in the first half of 2012 to make up for lower pay as you go instalments during 2011.

Improvements in working capital management have resulted in 117.7% Operating EBITDA conversion to cash for the period, compared to 92.0% for 2012 full year and 99.5% for first half 2012 as shown in the table below. The conversion rate is expected to revert closer to 100% by year end.

	2013 $'m	2012 $'m
Operating EBITDA	**41.3**	42.6
Cash provided by operating activities	**32.9**	23.3
Add finance costs	**8.1**	7.9
Add Income tax paid	**7.6**	11.4
Less interest received	**-**	(0.1)
Ungeared, tax free operating cash flow	**48.6**	42.5
Proportion of operating EBITDA converted to cash	**117.7%**	99.5%

Capital expenditure related to:

	2013 $'m	2012 $'m
Refurbishments and facility upgrades	**3.4**	1.6
Motor vehicles	**2.7**	2.5
Digital Business	**1.2**	0.6
Other assets	**1.2**	3.6
Total capital expenditure	**8.5**	8.3

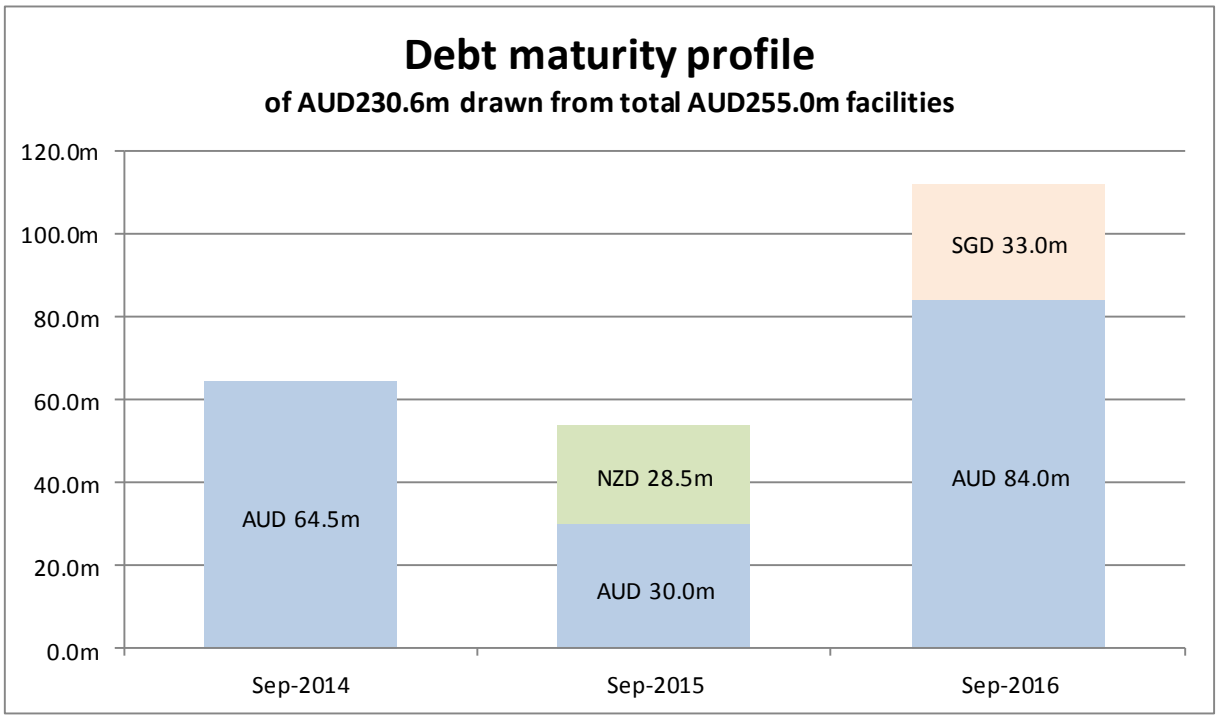
The 2012 final dividend of 19.0 cents per share, totalling $20.9 million, was paid in April 2013 (April 2012: 16.25 cents per share, $17.9 million). The amount this half included $4.3 million for the on market purchase of shares for the dividend reinvestment plan.

Shares amounting to $0.8 million (2012: $1.3 million) were acquired during the year by the InvoCare Deferred Employee Share Plan Trust in connection with long term, share-based incentives for senior management.

Capital management

At 30 June 2013, the Group had drawn down $230.6 million borrowings (from total $255 million debt facilities) compared to $224.1 million at 31 December 2012 and $225.0 million at 30 June 2012. Net debt at 30 June 2013 was $224 million which was up on the balance at 31 December 2012 of $218 million and 30 June 2012 of $211 million. The key movements since December 2012 included the AUD5 million investment in HeavenAddress in January 2013 and NZD1.9 million purchase of Resthaven in February 2013.

The current drawings comprise AUD178.5 million, SGD33.0 million and NZD28.5 million and the maturity profile is shown in the graph below. The foreign currency drawings naturally hedge InvoCare's investments in its foreign Singapore and New Zealand markets. The three, four and five year term multi-currency revolver facilities were established in September 2010 and are provided in equal proportions by Australia and New Zealand Banking Group Limited, National Australia Bank and Commonwealth Bank, and in the case of NZD, by their respective New Zealand subsidiaries or branch.



In December 2012 the original three year tranche facility of $127.5 million was rolled over for a further 45 months to September 2016. This tranche was originally set to mature in September 2013 but was refinanced earlier to maintain the non-current status of the debt at 31 December 2012. It is now anticipated that the original four year tranche of $64.5 million due in September 2014 will be refreshed in late 2013 for similar reasons.

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 30 June 2013, being 2.5 and 5.7 respectively.

At balance date, 89% of debt principal was covered by floating to fixed interest rate swaps. The table below shows the current swap profile, including the fixed rate payable in return for receipt of floating rates (eg. BBSW in the case of AUD denominated borrowings). To maintain certainty over cash flows, the Group's policy is to maintain at least 75% of hedging cover for the next 12 months of forecast borrowings. As a consequence of hedging, InvoCare has not enjoyed the benefit of the recent reductions in market rates on its hedged debt.

Swap principal	Start Date	Termination Date	Fixed Rate payable
AUD 66.0m	Sep-2010	Sep-2013	5.37%
AUD 64.5m	Sep-2010	Sep-2014	5.42%
AUD 30.0m	Jun-2011	Sep-2015	5.33%
AUD 60.0m	Sep-2013	Sep-2016	4.75%
AUD 60.0m	Sep-2014	Sep-2017	3.98%
SGD 27.0m	Sep-2010	Sep-2013	1.19%
NZD 27.0m	Sep-2011	Sep-2015	3.72%

The overall average effective interest rate is currently 6.6%, inclusive of fixed rates on hedged debt, floating rates on unhedged debt, margins (based on tranche tenor and leverage – currently averaging around 190bps), undrawn commitment fees and amortisation of establishment fees.

Headroom on the debt facilities of $24.4 million and cash of $6.6 million, provided $31.0 million in available funds at 30 June 2013. This amount together with operating cash flows will provide further capacity to fund near term growth opportunities.

Outlook

During July 2013, sales revenue was up 5.5% on the same month last year. Comparable business (ie. excluding recent acquisitions) sales revenue was up 3.4%. Memorial construction delivered an additional $1.0 million in sales revenue in July this year compared to the same month last year, helping to mitigate the construction shortfalls in the first half. Further memorial construction continues in August with a similar target. Costs are being closely and prudently managed, for example by curtailing advertising and marketing expenditure where market share impacts are not adversely affected, moderately but responsibly slowing the pace of some of the digital business initiatives and carefully assessing headcount requirements, in particular employee replacement after natural attrition. The benefit of cost initiatives has seen leverage growth in the month. Subject to actual case volumes, this trend should continue into the second half as the comparative second half of 2012 has a higher cost base than the first half.

Several small acquisitions have been completed in New Zealand since 30 June 2013. The total consideration (in AUD) for the businesses was $2.3 million (including property). They are expected to generate an estimated $1.7 million and $0.2 million in annualised sales and EBITDA respectively. In 2013, it is estimated the contribution from these acquisitions will be sales of $0.8 million and EBITDA of $0.1 million. These acquisitions further expand InvoCare's footprint and share in the New Zealand market.

InvoCare continues to review expansion opportunities both in Australia and abroad and is in discussion with a number of potential small sized vendors. There is no certainty about the success or timing of any of these small acquisitions.

Prepaid funeral fund returns are expected to improve in the second half as the property transaction costs incurred by the Guardian fund are not repeated and the additional property investment enhances that fund's earnings. Returns are also expected to remain relatively stable assuming current investment market conditions prevail.

The group's capital expenditure in 2013 is expected to be approximately $17 million. The main investments planned include initial plans for upgrade of the operations centres, continuing investment in chapel facilities and further investment in digital technology. In July 2013 the delayed sale of the surplus Melbourne funeral property was settled resulting in a pre-tax profit of $1.8 million which will be included in the full year results. InvoCare will continue its practice of reviewing the performance of its property assets and, if required, may dispose underperforming assets.

There has been no change to InvoCare's capital management plans. Sufficient funds are expected to be available from debt facilities and free cash flows for capital expenditure and smaller "bolt on" acquisitions. If a more substantial opportunity arises, alternative funding sources, such as an equity raising, would be considered. A debt facilities tranche of $64.5 million, due to mature in September 2014, is expected to be refinanced before the end of 2013.

It remains the policy of the Board to distribute at least 75% of operating earnings after tax[4] as dividends, as well as increase the quantum of those dividends year on year. Despite the fall in half year operating results from expectations, the interim dividend was maintained at the same level as the 2012 interim. This was made possible by improvement in the operating EBITDA to cash conversion mentioned earlier.

InvoCare remains focussed on its core pillars of growth. Despite the disappointing first half, the longer term outlook remains positive.

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

Net Tangible Asset Backing per Share

	30 June 2013 $'000	31 Dec 2012 $'000	30 June 2012 $'000
Net assets	**152,514**	151,891	143,602
Add deferred tax liabilities	**28,863**	28,502	27,152
Less intangible assets	**(141,772)**	(137,484)	(130,551)
Net tangible assets	**39,605**	42,909	40,203
Number of shares outstanding	**110,030,298**	110,030,298	110,030,298
Net tangible assets per share	**$0.36**	$0.39	$0.37

Acquired or Disposed of Businesses and Assets

In February 2013 InvoCare acquired the assets and business of the Resthaven Funeral Service (2000) Limited in Auckland New Zealand for NZD1.8 million.

Acquired or Disposed of Controlled entities

There were no acquisitions or disposals of controlled entities during the half year ended 30 June 2013.

Associates and Joint Ventures

In January 2013, InvoCare invested a further AUD5.0 million in its associate entity HeavenAddress Pte Limited which resulted in an increase in its shareholding from 28% to 34%.