InvoCare Limited and Controlled Entities

ABN: 42 096 437 393

Interim financial report

For the half-year ended 30 June 2018

InvoCare Limited and Controlled Entities

Directors' report

Your directors present their report on the consolidated entity consisting of InvoCare Limited and the entities it controlled at the end of, or during, the half-year ended 30 June 2018.

Directors

The persons who were directors of InvoCare Limited during the entire half-year period and until the date of this report are as below:

Richard Fisher (Chairman)
Martin Earp (Chief Executive Officer)
Richard Davis
Gary Stead
Robyn Stubbs
Bart Vogel

Joycelyn Morton resigned as an independent Non-Executive director effective 18 May 2018.

Dividends

The directors have determined a fully franked interim dividend of 17.50 cents per share (2017: 18.50 cents per share fully franked) which will be paid on 5 October 2018.

For the 2018 interim dividend, it is intended that the required shares will be issued at a discount of 2% to the market price. Any shortfall in DRP take-up will not be underwritten. 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 DRP Election date, 7 September 2018.

Operating and Financial Review

Result highlights: Half-Year	2018 $'000	2017 $'000	Change $'000	
Operating Sales Revenue (i)	**225,675**	224,791	884	0.4%
Other revenue (i)	977	1,586	(609)	(38.4%)
Operating expenses (i)	(172,923)	(172,485)	(438)	(0.3%)
Operating EBITDA (i)	**53,729**	53,892	(163)	(0.3%)
Operating margin	*23.8%*	*24.0%*		*(0.2%)*
Depreciation and amortisation (i)	(11,760)	(10,602)	(1,158)	(10.9%)
Finance costs	(9,312)	(6,214)	(3,098)	(49.9%)
Interest income	641	521	120	23.0%
Business acquisitions costs	(1,345)	(171)	(1,174)	-
Operating earnings before tax (i)	**31,953**	37,426	(5,473)	(14.6%)
Income tax on operating earnings (i)	(8,397)	(11,988)	3,591	30.0%
Effective tax rate	*26.3%*	*32.0%*		*(5.8%)*
Operating earnings after tax (i)	**23,556**	25,438	(1,882)	(7.4%)
Operating earnings per share (i)	*21.6 cents*	*23.3 cents*	*(1.7) cents*	*(7.3%)*
Net gain/(loss) on prepaid contracts after tax (i)	(2,753)	16,048	(18,801)	(117.2%)
Asset sales gains after tax (i)	107	290	(183)	(63.1%)
Non-controlling interest	(60)	(45)	(15)	(33.3%)
Net profit after tax attributable to ordinary equity holders of InvoCare	**20,850**	41,731	(20,881)	(50.0%)
Basic earnings per share	19.1 cents	38.0 cents	(18.9) Cents	(49.7%)
Diluted earnings per share	18.9 cents	37.9 cents	(19.0) Cents	(50.0%)
Interim ordinary dividend per share	17.50 cents	18.50 cents	(1.0) Cent	(5.4%)

(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.

Consistent with the 2017 full year results, the Group presents its 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 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 better reflection of the Group's operating performance and results.

Consistent with the 2017 full year results, prior year comparatives have been restated to show the impact of this change in presentation. Total revenue from continuing operations has been decreased by $0.4 million (2017: increase $3.5 million),operating expenses have been reduced by $3.9 million (2017: increased by $1.5 million), net gain on prepaid contracts, net of tax, has been decreased by $3.1million (2017: $8.2 million) and Net cash inflow from operating activities increased by $6.3 million (2017: decreased by $0.5 million) with an corresponding impact on Net 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 represented by the Consolidated Income Statement on page 14.

Financial overview

The Protect and Grow rollout is progressing to plan with initial results surpassing modelled returns. However, as was anticipated, the implementation of the Network, Brand and Optimisation stream (NBO), including the scheduled closure of operations as they were being refurbished, impacted the financial results for this period. In addition, market conditions were unexpectedly soft heightening the competitive environment and also impacting results.

Group operating EBITDA was broadly in line with last year at $53.7 million (2017: $53.9 million). When excluding the unwind of the AASB15 transitional adjustment of $7.5 million, the result was consistent with the outlook provided in May. For the comparable business, that is, excluding the USA operations and three acquired businesses, operating EBITDA declined $1.0 million or 1.8% to $53.7 million (2017: $54.7 million) mostly due to additional operating costs incurred for new locations as part of the greenfield Protect and Grow plan and the impact of the softer market.

Operating sales revenue was up 0.4% or $0.9 million to $225.7 million (2017: $224.8 million). The increase was due to the realisation of deferred memorialisation sales in the cemeteries and crematoria business on completion of instalment payments.

Overall, number of deaths in InvoCare's core markets decreased by approximately 0.7% compared to the prior corresponding period (PCP) and by 1.2% in our core market in Australia. The rolling 12-month basis market share decline of 90bps was stable despite the implementation of the NBO project which necessitated having locations off-line for refurbishment. It is estimated that 650 cases were lost in the first half of this year in our Australian and Singaporean businesses as the NBO was implemented.

Initial results of the first phase of NBO locations are positive with EBITDA ahead of the forecast assumed in the Protect & Grow Plan.

A continued focus on productivity resulted in an increase of 1.1% in the comparable business' operating costs over the PCP which is lower than CPI and down 0.4% when excluding the additional operating costs of $1.2 million for the 15 greenfield NBO locations. This was achieved primarily by containing cost of goods sold and through savings in other personnel related costs and advertising.

As a percentage of sales, comparable EBITDA margins were in line with last year.

Statutory reported revenue was up 1.8% or $ 4.1 million to $227.1 million (2017: $223.0 million).

Statutory reported profit after tax was down 50.0% or $20.9 million to $20.8 million (2017: $41.7 million). It is important to recall that H1 2017 benefited from a significant increase in gains on prepaid contracts primarily as a result of the appreciation in the value of property investments held by the main Guardian Trust fund within the Over Fifty Guardian Friendly Society.

Operating cash flows remained strong for the half-year. Ungeared, tax free operating cash flow excluding impacts from prepaid funeral business was 82% of Operating EBITDA (2017: 97%), underpinning the ability to pay a fully franked interim dividend of 17.50 cents per share, which is 1.0 cent or 5.4% lower than last year.

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

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

Half-Year	2018	2017	Change	
	$'000	$'000	$'000	%
Operating Sales Revenue				
Australia	**196,677**	193,176	3,501	1.8%
New Zealand	**22,100**	22,497	(397)	(1.8%)
Singapore	**6,569**	8,429	(1,860)	(22.1%)
Comparable business	**225,346**	224,102	1,244	0.6%
USA and Acquisitions	**329**	689	(360)	-
Total	**225,675**	224,791	884	0.4%
Operating EBITDA				
Australia	**47,545**	46,057	1,488	3.2%
New Zealand	**4,082**	4,558	(476)	(10.4%)
Singapore	**2,070**	4,040	(1,970)	(48.8%)
Comparable business	**53,697**	54,655	(958)	(1.8%)
USA and Acquisitions	**32**	(763)	795	-
Total	**53,729**	53,892	(163)	(0.3%)
Margin on sales				
Australia	**24.2%**	23.8%		0.4%
New Zealand	**18.5%**	20.3%		(1.8%)
Singapore	**31.5%**	47.9%		(16.4%)
Comparable business	**23.8%**	24.4%		(0.6%)
Total	**23.8%**	24.0%		(0.2%)

The Operating EBITDA performance by major income statement line item for the Group is presented in the next table.

Half-Year	2018		2017		Change	
	$'000	% of Gross Sales	$'000	% of Gross Sales	$'000	
GROUP						
Operating Sales Revenue	**225,675**	**100.0%**	**224,791**	**100.0%**	**884**	**0.4%**
Other revenue	977	0.4%	1,586	0.7%	(609)	(38.4%)
Expenses:						
Cost of goods sold	(58,914)	26.1%	(59,970)	26.7%	1,056	1.8%
Personnel	(75,825)	33.6%	(74,991)	33.4%	(834)	(1.1%)
Advertising and promotions	(6,310)	2.8%	(7,976)	3.5%	1,666	20.9%
Occupancy and facility expenses	(15,290)	6.8%	(14,404)	6.4%	(886)	(6.2%)
Motor vehicle expenses	(3,805)	1.7%	(3,685)	1.6%	(120)	(3.3%)
Other expenses	(12,779)	5.7%	(11,459)	5.1%	(1,320)	(11.5%)
Operating expenses	(172,923)	76.6%	(172,485)	76.7%	(438)	(0.3%)
Operating EBITDA	**53,729**	**23.8%**	**53,892**	**24.0%**	**(163)**	**(0.3%)**
Operating margin %	*23.8%*		*24.0%*			*(0.2%)*

The Operating EBITDA performance by major income statement line item for the comparable business is presented in the next table.

Half-Year	2018		2017		Change	
	$'000	% of Gross Sales	$'000	% of Gross Sales	$'000	
COMPARABLE Business						
Operating Sales Revenue	**225,346**	**100.0%**	**224,102**	**100.0%**	**1,244**	**0.6%**
Other revenue	977	0.4%	1,372	0.6%	(395)	(28.8%)
Expenses:						
Cost of goods sold	(58,796)	26.1%	(59,887)	26.7%	1,091	1.8%
Personnel	(75,721)	33.6%	(73,972)	33.0%	(1,749)	(2.4%)
Advertising and promotions	(6,293)	2.8%	(7,861)	3.5%	1,568	19.9%
Occupancy and facility expenses	(15,258)	6.8%	(14,306)	6.4%	(952)	(6.7%)
Motor vehicle expenses	(3,794)	1.7%	(3,636)	1.6%	(158)	(4.3%)
Other expenses	(12,764)	5.7%	(11,157)	5.0%	(1,607)	(14.4%)
Operating expenses	(172,626)	76.6%	(170,819)	76.2%	(1,807)	(1.1%)
Operating EBITDA	**53,697**	**23.8%**	**54,655**	**24.4%**	**(958)**	**(1.8%)**
Operating margin %	*23.8%*		*24.4%*			*(0.6%)*

Commentary on the results is provided in the following sections of this report.

Sales

Key components of the comparable sales movements by market segment are summarised below:

- **Australian funeral sales** decreased 3.5% or $5.3 million to $144.5 million (2017: $149.8 million).
    - Average revenue per funeral case, excluding disbursements and delivered prepaid impacts, decreased 1.9% over the PCP resulting in an estimated $2.2 million reduction in sales. This decrease reflects the strong competition from smaller operators in contracting market conditions and greater volume of value cremations in isolated markets.
    - Underlying volume grew by 224 cases or 1.2% to 18,212 cases when taking into account NBO impacted locations (448 cases) and our share of the decline in the number of deaths (216 cases). Loss in market share is specific to our traditional brands which is where the NBO is focused, to ensure our products & services meet the customer's desire for a more contemporary offering. The need to respond to this change has been clearly communicated and is the rationale for the Protect and Grow plan.
    - The number of new prepaid contracts sold continues to exceed prepaid services performed by 12% (2017: 24%). Prepaid funerals performed in the period was consistent at 14.5% (2017: 14.5%) of at-need funerals.
- **Australian cemeteries and crematoria sales** recorded an increase of 18.3% or $8.9 million to $57.6 million (2017: $48.7 million) which included the unwinding of the AASB15 transitional adjustment of $10.5 million. Operational cemeteries and crematoria sales were also impacted by lower numbers of deaths and a one-off $0.5 million project in the PCP.
- **New Zealand sales** (in NZ$) were down 0.7% or $0.2 million to $23.8 million (2017: $24.0 million). Funeral case volumes were largely in line with the PCP as market share remained relatively stable. Case averages were down 1.0%. The two memorial parks in Christchurch contributed $1.3 million to sales, up $0.2 million or 15.7% on the PCP. In AU$, New Zealand sales were down 1.8% to $22.1 million (2017: $22.5 million) which included unfavourable foreign exchange movements of $0.3 million.
- **Singapore funeral sales** (in SG$) decreased by 24.7% to $6.7 million (2017: $8.9 million) with the decline stemming from the temporary closure of the parlours as major renovations which began in early Q4 2017 were completed and the parlours re-opened in mid Q2 2018. The volume impact is estimated at circa 200 cases in 2018 alone. In AU$, Singapore sales were down 22.1% to $6.6 million (2017: $8.4 million) which included favourable foreign exchange movements of $0.2 million.
- Intra-group elimination of cemeteries and crematoria sales to InvoCare owned funeral homes amounted to $7.0 million (2017: $6.6 million).

The **USA business,** as previously reported, ceased funeral operations in March 2017 and the crematoria business was sold in October 2017.

Other revenue

Other revenue decreased $0.4 million to $1.0 million (2017: $1.4 million). The PCP benefitted from $0.7 million received from the granting of an option to a purchaser of a property owned by the Group.

Operating expenses

Comparable operating expenses increased 1.1% or $1.8 million to $172.6 million (2017: $170.8 million). Operating expenses include $2.9 million relating to costs arising from the unwinding of the AASB15 transitional adjustment in the cemeteries and crematoria business and $1.2 million from the 15 greenfield funeral locations. Excluding these, operating expenses decreased 1.3% or $2.3 million to $168.5 million (2017: $170.8 million).

Cost of goods sold includes an additional $1.6 million arising from the unwinding of the AASB15 transitional adjustment in the cemeteries and crematoria business. As a percentage of sales and excluding the AASB 15 impact, cost of goods sold was largely in line with the PCP.

Personnel costs were up 1.1% or $0.8 million with comparable up 2.4% or $1.8 million. Comparable includes $1.3 million relating to the unwinding of the AASB15 transitional commission adjustment in the cemeteries and crematoria business and $0.7 million for the 15 greenfield funeral locations. Excluding these impacts, the decrease in personnel costs over the PCP was 0.4% or $0.3 million. Base pay rate increases are below 3%, consistent with the awards and enterprise agreements in place for the majority of the work force, partially offset by a reduction in fringe benefits tax expense and the reassessment of short and long-term incentives.

Advertising and promotions for the Group decreased by $1.7 million. The comparable business decreased its spend by $1.6 million to $6.3 million or 19.9% on the PCP (2017: $7.9 million) resulting from the allocation of the Pre-need spend to non-operating of $2.3 million.

Occupancy and facilities expenses increased 6.2% or $0.9 million to $15.3 million (2017: $14.4 million). The increase largely relates to rental expense associated with the 15 greenfield locations opened to date under the Protect and Grow plan.

Motor vehicle expenses were in line with last year.

Other expenses increased 14.4% or $1.6 million to $12.7 million (2017: $11.1 million). The increase relates to new locations and to the training/travel activity associated with various information technology upgrades designed to drive long term operational efficiencies.

Operating EBITDA

Operating EBITDA for the Group was in line with the PCP and margins of 23.8% were also consistent with the PCP (2017: 24.0%). The result benefitted from the unwinding of the AASB 15 transitional adjustment of $7.5 million for the cemeteries and crematoria business and the reallocation of Advertising and Promotions related to Pre-need to non-operating.

There was no significant impact from foreign exchange movements on operating EBITDA during the half-year.

Depreciation and amortisation expenses

Depreciation and amortisation expenses were up 10.9% or $1.2 million to $11.8 million (2017: $10.6 million). The increase stems from higher capital expenditure in the last quarter of 2017 and the first half of 2018, following investment in our network under the Protect and Grow program.

Finance costs

Finance costs increased 49.9% or $3.1 million to $9.3 million (2017: $6.2 million). $1.8 million relates to the AASB 15 requirement to recognise a financing expense on customer advances relating to the cemeteries and crematoria contracts. The balance of $1.3 million mostly relates to additional borrowings drawn from new facilities to fund the Protect and Grow plan.

Business acquisition costs

Acquisition costs were up $1.1 million to $1.3 million (2017: $0.2 million) following increased M&A activities which resulted in four acquisitions completed in H1 for a total purchase consideration of $16.5 million and several that were completed after balance date.

Prepaid contract performance

Effective 1 January 2018, pursuant to the application of AASB 15, the upfront administration fee received, on sale of new prepaid contract, will be deferred along with related selling costs until delivery of the underlying service. Also, the previous methodology of growing the future liability in line with price increases was replaced with recognition of interest expense related to advance payments from customers. Refer to Note 13 in the accompanying financial statements for a detailed explanation of this change in accounting standard and related policy.

Net loss on prepaid contracts after tax were $2.8 million (2017: gain $16.0 million). Returns in the PCP benefited from a significant revaluation on listed investments and unlisted property investments in the main Guardian Fund in the amount of $23.6 million. Consistent with 2017 reporting, the costs of activities related to the prepaid funeral business as non-operating amounted to $3.1 million (net of tax) (2017: $8.2 million).

Within the net loss result were net gains on undelivered prepaid contracts of $0.3 million (2017: $24.3 million). The current half-year gain comprised an increase of $9.7 million in the fair value of funds under management offset by growth of $9.4 million in the future liability to deliver prepaid services. The fair value uplift of $9.7 million in funds under management was $23.2 million lower than the PCP as stipulated above.

During the half-year, the prepaid liability was increased to progressively recognise the impact of the interest expense arising from customer advance payments. This resulted in liability growth of $9.4 million, up from $8.6 million, based on the previous methodology of increasing the liability based on increases in selling prices.

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

Approximately 88% of InvoCare's prepaid funds under management are with the Over Fifty Guardian Friendly Society. The investment committee of the Guardian fund continue to evaluate asset allocation strategies to deliver

appropriate returns at acceptable levels of risk and volatility. This may result in a further shift in asset classes should the right opportunities be identified.

Movements in the total asset mix of all funds under management over the last 18 months are illustrated in the following table:

	June 2018 %	Dec 2017 %	June 2017 %	Dec 2016 %
Equities	**19**	20	17	13
Property	**23**	16	30	32
Cash and fixed interest (includes hybrid securities)	**58**	64	53	55

Asset sale gains

Minor gains on disposal of assets were recorded in both halves.

Impairment

All memorial parks were reassessed at 30 June 2018. No changes to the impairment provisions previously recognised were deemed necessary.

The remediation of the residual land at Allambie has progressed during the period. The investment case was approved in March 2018 and construction work commenced in July 2018.

Income tax expense

Income tax expense on reported profit was $7.2 million (2017: $18.3 million), representing an effective rate of 25.7% (2017: 30.4%). The effective rate was reduced by a prior period adjustment of $1.2 million recognised as a capital loss on the sale of the US operations. If this adjustment is excluded, the effective rate is 30%.

Income tax expense on operating earnings[1] decreased by $3.6 million to $8.4 million (2017: $12.0million) and the effective rate was 26.3% (2017: 32.0%).

[1] Operating earnings is non-IFRS financial information

Cash flow highlights

The operating EBITDA conversion to cash ratio for the period was 82% as shown in the table below. The conversion ratio was adversely impacted by the unwinding of AASB15 transitional adjustment, lower sales and one-off costs related to projects expensed in the current half.

Half-Year	2018 $'000	2017 $'000
Operating EBITDA[1]	**53,729**	53,892
Statutory ungeared, tax free operating cash flow [1]	**37,866**	52,900
Add receipts from funds for pre-paid contracts performed [1]	**21,862**	20,452
Less receipts from pre-paid contract sales [1]	**(17,712)**	(20,492)
Less other cash flows related to the pre-paid fund funeral business [1]	**2,126**	(444)
Ungeared, tax free operating cash flow[1]	**44,142**	52,416
Proportion of operating EBITDA converted to cash [1]	**82%**	97%

1 Non-IFRS information

Asset purchases by strategy, on an accrual basis, is as follows:

Half-Year	2018 $'000	2017 $'000
Business as usual	**6,915**	16,947
Protect and Grow plan	**23,966**	911
Total capital expenditure	**30,881**	17,858

The increase in capital expenditure is in line with the Protect and Grow investment in properties, facilities and information technology.

Capital management

In February 2018 the Group entered into new financing arrangements:

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

At 30 June 2018, the Group had drawn down $331.4 million borrowings (from total $450 million debt facilities) compared to $253.6 million at 30 June 2017 and $243.1 million at 31 December 2017. Net debt at 30 June 2018 was $319.9 million which compared to the balance at 30 June 2017 of $236.3 million and 31 December 2017 of $228.5 million.

The increase of $88 million in debt drawn during the first half is mostly due to the Protect and Grow investment.

The current facilities' drawings comprise A$248.0 million, SG$35.0 million and NZ$52.5 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 operating EBITDA adjusted for acquisitions) which must be no greater than 3.5 and an Interest Cover Ratio (being operating EBITDA to net interest) which must be greater than 3.0. Both these ratios continue to be met at 30 June 2018, being 2.78:1 and 9.83:1 respectively.

To maintain certainty over cash flows, the Group has policies limiting exposure to interest rate fluctuations. In accordance with InvoCare's policy, at balance date 88% of Australia and New Zealand debt principal was covered by floating to fixed interest rate swaps. Due to the level of stability of Singaporean interest rates and its quantum, Singapore debt is not covered by interest rate swaps.

The overall average effective interest rate is currently 4.5% (2017: 4.4%), inclusive of fixed rates on hedged debt, floating rates on unhedged debt, undrawn commitment fees and amortisation of establishment fees.

Headroom on the debt facilities of $117.4 million, and cash of $11 million, provide $129 million in available funds at 30 June 2018. This amount together with positive and operating cash flows will provide further capacity to fund near-term growth opportunities.

Progress on Protect & Grow 2020

2020 Plan: Protect & Grow

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

The Protect & Grow plan has three core work streams:

- **Network and Brand Optimisation** (NBO) – 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 has shifted to further empower local leaders.
- **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 phase started in Q4 2017 (28 locations completed) and has continued through the first half of 2018 (19 locations completed) with a further 52 scheduled for completion in H2 2018. By the end of 2018 a total of 99 locations out of approximately 250 in our network will have been renovated.

The current implementation plan will see the entire program of refurbishments completed by the end of 2020. The staged approach to implementation has been driven by the need to manage the impact of the closure of locations. IVC is utilising its comprehensive network to ensure that when a location is closed for renovation the neighbouring locations remain open to allow customers to access a geographically convenient alternative. This, combined with lessons learned with regard to installing a temporary shop-front facility at the locations undergoing refurbishment, partially mitigates the impact that the closure of locations is having on the business. As at the end of H1, it was assessed that the net number of cases lost due to the NBO project of works is circa 650 cases.

As reported to the market in May the results from the original three pilot locations opened in early 2017 remain promising but the sample size is small. The results from the locations opened in Q4 2017 and H1 2018 (47 locations) are positive with EBITDA performance of the locations as a whole trending well above the modelled expectations (circa +30%). The profile of the locations indicates that 33 of the 47 locations are performing in-line or above expectations. Of the balance that are performing below expectations, we have been able to identify clearly where opportunities to improve the performance can be made. The key lessons learned are:

- Additional capex is required on the "enhance" locations to deliver the "wow" factor, but for the refresh locations this can be achieved with less spend than anticipated
- New growth locations are ramping up quicker than forecast
- Local marketing, the local leader and the renovated site are critical
- Design standards are being tweaked based on feedback from customers and staff
- Standardised design approach is allowing for procurement savings
- Performance data from renovated locations is facilitating on-going updates to the P&G plan, including additional locations and divestments

Continued good progress has also been made with regard to both the people and culture work stream and the operational efficiency projects. IVC has expanded its Customer Service Masterclass program to ensure that the level of customer service matches the standard of the newly renovated locations. We have also launched the One InvoCare cultural awareness program to ensure that we focus on working collaboratively with staff, customers and suppliers. The combination of these two programs has contributed to IVC's Net Promoter Score (NPS) increasing to 72% in Q2 2018 from 68% in Q4 2017. IVC is also continuing to roll out its local leadership structure and training

program to ensure that the business maintains strong Local Leaders who drive the day to day performance of our business.

With regard to Operational Efficiencies we continue to examine our cost base and currently the business is focusing on the benefits that can be obtained from centralised procurement. In the longer term, the business will secure efficiencies from the implementation of the new business system and the fit-for-purpose regional operational shared services locations. IVC launched the Human Capital Management and Payroll component of its new Oracle business system in April. The pilots for the full ERP system are scheduled for roll-out in Q4 (after the busy winter period). In advance of this rollout, IVC will have completed the full upgrade of its WAN, WiFi and telephony systems. IVC has completed the design of its regional shared services facilities and has secured locations for three of these centres.

Outlook

The Company continues to position itself to meet the challenge of changing customer preferences through its investment in the Protect & Grow plan. The initial results from the first tranche of NBO sites provide us with confidence 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** – it has been a soft market in 2018 YTD. The number of deaths in Australian has been down by 1.2%. This is not unusual as the number of deaths tends to fluctuate around the long-term trend. However, it should be noted that we did forecast a reversion to the expected long-term growth trend (1.5% increase in deaths per annum) for 2018. History indicates that the market generally bounces back to the trend line following a period of lower than anticipated growth;
- **Market Share** – as clearly indicated earlier this year, the NBO activity has impacted the business in 2018 with an estimated 650 cases lost due to locations being temporarily closed for renovation. Overall we continue to see market share losses from the traditional business but our market share has stabilised with Q2 2018 showing a slight uplift on Q2 2017. Market share increased by 20 bps for the Group in H1 once the disruption of NBO has been taken into consideration. We expect our market share to increase in 2019 as more of our locations are renovated, new locations come on-line and the impact of recent acquisitions are taken into account;
- **Case Average** – price competition prompted the need to discount at NBO locations during renovations, along with increasing volume from our entry level product (Value Cremations) combined with some geographic mix issues (lower than expected sales in Melbourne / Sydney) have all meant that case average is down 2% year on year. However, where locations have been renovated the performance of case average is above expectations. As more of our locations are renovated we expect that the case average increase will revert to traditional levels (+3-4% pa.)
- **Operating Expenses** – we will continue to focus on procurement and productivity in H2, with the longer term benefits of the new business system and operational centres beginning to flow in 2019;

The difficultly in making an accurate outlook statement at this stage of the year is that the performance of the business is driven by the number of deaths in the market, particularly throughout the winter months when an increasing number of deaths occur. If the market remains soft and taking into account the changes in accounting standard AASB15, then IVC is currently forecasting that it will deliver a low single digit growth in Operating EBITDA on PCP and a single digit decline on EPS due to higher finance costs and NBO related depreciation. On a like-for-like basis, assuming the market remains soft throughout H2, Operating EBITDA may experience a mid-single digit decline on PCP, with a corresponding decline on Operating EPS from the prior outlook.

Auditor's Independence Declaration

A copy of the Auditor's Independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

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

Sydney
16 August 2018

Auditor's Independence Declaration

As lead auditor for the review of InvoCare Limited for the half-year ended 30 June 2018, 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 review; and

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

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

Michelle Chiang

MW Chiang
Partner
PricewaterhouseCoopers

Sydney
16 August 2018

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InvoCare Limited and Controlled Entities

Consolidated Income Statement

For the half-year ended 30 June 2018

	Notes	Half-Year 2018 $'000	2017 $'000
Revenue from continuing operations	3	**227,094**	222,941
Finished goods, consumables and funeral disbursements		**(58,913)**	(59,972)
Employee benefits expense		**(77,240)**	(76,814)
Advertising and public relations expenses		**(8,703)**	(7,976)
Occupancy and facilities expenses		**(15,290)**	(14,411)
Motor vehicle expenses		**(3,824)**	(3,818)
Other expenses		**(12,849)**	(8,016)
		50,275	51,934
Depreciation and amortisation expense		**(11,760)**	(10,604)
Finance costs	12	**(10,089)**	(6,214)
Interest income		**641**	520
Net gain on undelivered prepaid contracts	4	**298**	24,286
Acquisition related costs		**(1,345)**	(171)
Net gain on disposal of non-current assets		**135**	298
Profit before income tax		**28,155**	60,049
Income tax expense		**(7,245)**	(18,273)
Profit from continuing activities		**20,910**	41,777
Profit for the half-year		**20,910**	41,777
Profit is attributable to:			
Equity holders of InvoCare Limited		**20,850**	41,731
Non-controlling interests		**60**	46
		20,910	41,777

Earnings per share for profit attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents per share)	7	**19.1**	38.0
Diluted earnings per share (cents per share)	7	**18.9**	37.9

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

InvoCare Limited and Controlled Entities

Consolidated Statement of Comprehensive Income

For the half-year ended 30 June 2018

	Notes	Half-Year 2018 $'000	Half-Year 2017 $'000
Profit for the half-year		**20,910**	41,777
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges, net of tax		**341**	49
Changes in foreign currency translation reserve, net of tax		**(265)**	(635)
Other comprehensive income for the half-year, net of tax		**76**	(586)
Total comprehensive income for the half-year		**20,986**	41,191
Total comprehensive income for the half-year is attributable to:			
Equity holders of InvoCare Limited		**20,926**	41,144
Non-controlling interests		**60**	46
		20,986	41,191

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

InvoCare Limited and Controlled Entities

Consolidated Balance Sheet

For the half-year ended 30 June 2018

	Notes	June 2018 $'000	December 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**11,416**	15,531
Trade receivables		**24,074**	43,288
Other receivables		**7,024**	6,029
Inventories		**41,298**	29,133
Prepaid contract funds under management	4	**47,022**	46,247
Property held for sale		**4,307**	460
Deferred selling costs		**5,375**	1,725
Total current assets		**140,516**	142,413
Non-current assets			
Trade and other receivables		**3,000**	30,951
Other financial assets		**4**	4
Property, plant and equipment		**372,998**	354,725
Prepaid contract funds under management	4	**507,554**	499,578
Intangible assets		**159,819**	147,188
Deferred selling costs		**38,039**	9,702
Total non-current assets		**1,081,414**	1,042,148
Total assets		**1,221,930**	1,184,561
LIABILITIES			
Current liabilities			
Trade and other payables		**42,719**	53,936
Derivative financial instruments		**167**	507
Current tax liabilities		**1,548**	12,037
Prepaid contract liabilities	4	**42,217**	38,949
Deferred revenue		**19,922**	11,500
Provisions		**15,212**	15,170
Total current liabilities		**121,785**	132,099
Non-current liabilities			
Borrowings		**328,126**	243,078
Derivative financial instruments		**1,356**	1,490
Deferred tax liabilities		**39,968**	55,427
Prepaid contract liabilities	4	**449,113**	413,135
Deferred revenue		**111,451**	53,334
Provisions		**3,073**	3,581
Total non-current liabilities		**933,087**	770,045
Total liabilities		**1,054,872**	902,144
Net assets		**167,059**	282,417
EQUITY			
Contributed equity		**120,822**	136,344
Reserves		**4,580**	5,046
Retained profits		**40,413**	139,843
Parent entity interest		**165,815**	281,233
Non-controlling interests		**1,244**	1,184
Total equity		**167,059**	282,417

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.
Refer to note 13 for details regarding the changes in accounting policies.

InvoCare Limited and Controlled Entities

Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2018

	Notes	Attributable to Owners of InvoCare Limited					
		Contri-buted equity $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non con-trolling interest $'000	Total equity $'000
Balance at 1 January 2018		**136,344**	**5,046**	**139,843**	**281,233**	**1,184**	**282,417**
Change in accounting policy	13	**-**	**-**	(90,023)	(90,023)	**-**	(90,023)
Restated total equity at the beginning of the financial year		**136,344**	**5,046**	**49,820**	**191,210**	**1,184**	**192,394**
Total comprehensive income for the half-year		**-**	**76**	**20,850**	**20,926**	**60**	**20,986**
Transactions with owners in their capacity as owners:							
Dividends paid	5	**-**	**-**	**(30,257)**	**(30,257)**	**-**	**(30,257)**
Acquisition of shares by the InvoCare Deferred Share Plan Trust	6	**(16,196)**	**-**	**-**	**(16,196)**	**-**	**(16,196)**
Deferred employee share plan shares vesting during the half year	6	**674**	**(674)**	**-**	**-**	**-**	**-**
Employee shares – value of services		**-**	**132**	**-**	**132**	**-**	**132**
Balance at 30 June 2018		**120,822**	**4,580**	**40,413**	**165,815**	**1,244**	**167,059**
Balance at 1 January 2017		134,914	7,344	90,815	233,073	1,137	234,210
Total comprehensive income for the half-year		-	(586)	41,731	41,145	46	41,191
Transactions with owners in their capacity as owners:							
Dividends paid	5	-	-	(28,057)	(28,057)	-	(28,057)
Deferred employee share plan shares vesting during the half year	6	1,043	(1,043)	-	-	-	-
Employee shares – value of services		-	51	-	51	-	51
Balance at 30 June 2017		135,957	5,766	104,489	246,212	1,183	247,395

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

InvoCare Limited and Controlled Entities

Consolidated Statement of Cash Flows

For the half-year ended 30 June 2018

	Notes	Half-Year 2018 $'000	Half-Year 2017 $'000
Cash flows from operating activities			
Receipts from customers (including GST)		**237,920**	250,879
Payments to suppliers and employees (including GST)		**(202,964)**	(201,874)
Other revenue		**2,910**	3,895
		37,866	52,900
Interest received		**-**	2
Finance costs		**(6,375)**	(5,903)
Income tax paid		**(18,647)**	(16,474)
Net cash inflow from operating activities		**12,844**	30,525
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**270**	1,547
Purchase of subsidiaries and other businesses including acquisition costs, net of cash acquired		**(17,781)**	(171)
Purchase of property, plant and equipment		**(39,946)**	(17,858)
Payments to funds for pre-paid contract sales	4	**(17,712)**	(20,492)
Receipts from funds for pre-paid contracts performed	4	**21,862**	20,452
Net cash outflow from investing activities		**(53,307)**	(16,522)
Cash flows from financing activities			
Payment for shares acquired by InvoCare Deferred Employee Share Plan Trust		**(16,196)**	-
Proceeds from borrowings		**346,761**	30,291
Repayment of borrowings		**(264,117)**	(10,938)
Dividends paid to InvoCare Limited shareholders		**(30,257)**	(28,057)
Net cash inflow / (outflow) from financing activities		**36,191**	(8,704)
Net increase in cash and cash equivalents		**(4,272)**	5,299
Cash and cash equivalents at the beginning of the half-year		**15,531**	11,528
Effects of exchange rate changes on cash and cash equivalents		**157**	(95)
Cash and cash equivalents at the end of the half-year		**11,416**	16,732

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

1 Basis of preparation of the half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 31 December 2017 and any public announcements made by InvoCare Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Except as noted below, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments to opening retained earnings at 1 January 2018 as a result of adopting the following standards:

- AASB 9 *Financial Instruments*, and
- AASB 15 *Revenue from Contracts with Customers*

The impact of the adoption of these standards and the new accounting policies are disclosed in note 13 Changes in accounting policies.

(b) Standards issued but not yet effective

AASB 16 *Leases* 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 accounting for lessors will not significantly change.

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 $47,028,000. 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.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 31 December 2017 and any public announcements made by InvoCare Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Excepted as noted above, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2 Segment Information

(a) Description of segments

The operating segments are based on the management reporting regularly reviewed by the Chief Executive Officer ("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.

2 Segment Information continued

(b) Segment information provided to the CEO

The segment information provided to the CEO for reportable segments to 30 June 2018 and 30 June 2017 is outlined below.

	Australian Operations	Singapore Operations	New Zealand Operations	Other	Consolidated
Half-Year	**2018**	**2018**	**2018**	**2018**	**2018**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Revenue from external customers	**195,056**	**6,568**	**22,166**	**1**	**223,791**
Other revenue (excluding interest income)	**2,994**	**206**	**103**	**-**	**3,303**
Operating expenses	**(153,914)**	**(4,706)**	**(18,191)**	**(8)**	**(176,819)**
	44,136	**2,068**	**4,078**	**(7)**	**50,275**
Revenue adjustment - prepaid redemptions *	**(456)**	**-**	**15**	**-**	**(441)**
Operating expenses adjustment - prepaid redemptions *	**3,895**	**-**	**-**	**-**	**3,895**
Operating EBITDA	**47,575**	**2,068**	**4,093**	**(7)**	**53,729**
Depreciation and amortisation	**(10,124)**	**(216)**	**(1,420)**	**-**	**(11,760)**
Finance costs	**(8,293)**	**(488)**	**(1,309)**	**1**	**(10,089)**
Interest income	**645**	**-**	**(4)**	**-**	**641**
Income tax expense	**(6,900)**	**(126)**	**(210)**	**(9)**	**(7,245)**
Total goodwill	**86,937**	**14,519**	**54,366**	**-**	**155,822**
Total assets	**1,076,772**	**55,809**	**89,182**	**167**	**1,221,930**
Total liabilities	**961,931**	**37,686**	**55,219**	**36**	**1,054,872**

	Australian Operations	Singapore Operations	New Zealand Operations	Other	Consolidated
Half-Year	**2017**	**2017**	**2017**	**2017**	**2017**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Revenue from external customers	**186,610**	**8,429**	**22,497**	**690**	**218,226**
Other revenue (excluding interest income)	**4,243**	**180**	**78**	**214**	**4,715**
Operating expenses	**(146,744)**	**(4,570)**	**(18,017)**	**(1,676)**	**(171,007)**
	44,109	**4,039**	**4,558**	**(772)**	**51,934**
Revenue adjustment - prepaid redemptions *	**3,427**	**-**	**35**	**-**	**3,462**
Operating expenses adjustment - prepaid redemptions *	**(1,504)**	**-**	**-**	**-**	**(1,504)**
Operating EBITDA	**46,032**	**4,039**	**4,593**	**(772)**	**53,892**
Depreciation and amortisation	**(9,047)**	**(137)**	**(1,325)**	**(95)**	**(10,604)**
Finance costs	**(4,438)**	**(371)**	**(1,407)**	**2**	**(6,214)**
Interest income	**518**	**-**	**2**	**-**	**520**
Income tax expense	**(17,589)**	**(400)**	**(279)**	**(5)**	**(18,273)**
Total goodwill	**85,780**	**13,816**	**45,898**	**1,619**	**147,113**
Total assets	**981,231**	**49,028**	**92,723**	**2,664**	**1,125,646**
Total liabilities	**785,531**	**32,911**	**59,548**	**261**	**878,251**

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

2 Segment Information continued

(b) Segment information provided to the CEO continued

Operating EBITDA of $53,729,000 (2017: $53,892,000) is reconciled to profit before tax on the face of the consolidated income statement.

(c) Segment information - accounting policies

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

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 prepaid funds under management assets, operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment liabilities consist primarily of prepaid funds under management liabilities, 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.

3 Revenue

Half-Year	2018	2017
	$'000	$'000
Sales revenue		
Funeral services	**165,014**	167,974
Cemetery and crematoria services	**58,777**	50,252
	223,791	218,226
Other revenue		
Rent	**213**	159
Administration fees	**2,213**	3,248
Sundry revenue	**877**	1,308
	3,303	4,715
Total revenue from continuing operations	**227,094**	222,941

4 Prepaid contracts

(a) Impact on statement of comprehensive income

Half-Year	Notes	2018 $'000	2017 $'000
Gain on prepaid contract funds under management		**9,734**	32,890
Change in provision for prepaid contract liabilities		**-**	(8,604)
Interest expense prepaid contracts	12,13	**(9,436)**	-
Net gain on undelivered prepaid contracts		**298**	24,286

(b) Movements in prepaid contract funds under management

Half-Year		2018 $'000	2017 $'000
Balance at the beginning of the year		**545,825**	473,056
Sale of new prepaid contracts		**17,712**	20,492
Initial recognition of contracts paid by instalment		**1,675**	1,811
Redemption of prepaid contract funds following service delivery		**(21,862)**	(20,452)
Increase due to business combinations	8	**1,492**	-
Increase in fair value of contract funds under management		**9,734**	32,890
Balance at the end of the half-year		**554,576**	507,797
Current		**47,022**	42,849
Non-current		**507,554**	464,948

(c) Movements in prepaid contract liabilities

Half-Year		2018 $'000	2017 $'000
Balance at the beginning of the year		**452,084**	438,028
Increase due to transition to AASB15: Revenue from contracts with customers	13	**28,590**	-
Sale of new prepaid contracts		**17,712**	20,492
Initial recognition of contracts paid by instalment		**1,675**	1,811
Decrease following delivery of services		**(19,924)**	(18,714)
Increase due to business combinations	8	**1,757**	-
Change in provision for prepaid contract liabilities		**-**	8,604
Interest expense prepaid contracts	12	**9,436**	-
Balance at the end of the half-year		**491,330**	450,221
Current		**42,217**	38,722
Non-current		**449,113**	411,499

4 Prepaid contracts continued

(d) 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. Prior to 1 January 2018, InvoCare recorded a liability at the current selling price of the service to be delivered and adjusted this liability for the change in selling prices during the period. Effective 1 January 2018, following adoption of AASB 15: *Revenue from Contracts with Customers*, the liability is adjusted by recognising an interest expense on customer advance payment until the underlying service is delivered and revenue is recognised. Refer to Note 13 Changes in accounting policies for the detailed explanation of changes due to transition to AASB 15.

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

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

InvoCare permits, on request, contracts to be paid by instalments over periods not exceeding three years. In some instances these contracts are never fully paid. If, during the three-year period the contract becomes at-need, the family is given the option of either paying outstanding instalments and receiving the contracted services at the original fixed price or using the amount paid as a part payment of the at-need service. If the contract is not fully paid after three years InvoCare only permits the family to use the amounts paid as a partial payment of the at-need services. At the end of the half-year the total balance of amounts received from instalment payments for incomplete contracts was $7,543,000 (2017: $7,230,000). These funds and the relevant liability are recognised when the contract has been fully paid.

During the half-year the non-cash fair value movements (i.e. investment earnings) of $9,734,000 in prepaid contract funds under management (2017: $32,890,000) was higher than the non-cash growth due to interest expense increases of $9,436,000 in the liability for future service delivery obligations (2017: $8,604,000).

5 Dividends

	Half-year ended	
	2018	2017
	$'000	$'000
Dividend paid during the half-year		
Final ordinary dividend in respect of the previous year of 27.50 cents (2017: 25.50 cents) per fully paid ordinary share, fully franked based on tax paid at 30%.	**30,257**	28,057
Dividends paid to members of InvoCare Limited	**30,257**	28,057
Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 17.50 cents per fully paid ordinary share (2017: 18.50 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 5 October 2018 (2017: 6 October 2017), but not recognised as a liability at the end of the half-year, is:	**19,255**	20,356
Franking credit balance		
The amount of franking credits available for subsequent financial years are:		
Franking account balance at the end of the reporting period	**40,244**	**35,521**
Franking credits that will arise from the payment of income tax payable at the end of the reporting period	**920**	**3,962**
Reduction in franking account resulting from the payment of the proposed interim dividend of 17.50 cents (2017: 18.50 cents)	**(8,252)**	**(8,724)**
	32,912	**30,759**

6 Movements in contributed equity

There were no movements in ordinary shares in either half-year period.

Half-Year	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Treasury shares				
Shares vesting during the half-year	(72,634)	(88,264)	(674)	(1,043)
Acquisition of shares by the InvoCare Employee Share Plan Trust	1,166,000	-	16,196	-
Total	1,093,366	(88,264)	15,522	(1,043)

The InvoCare Employee Share Plan Trust acquired 1,166,000 ordinary shares during the period to enable share grants and option exercises to be satisfied in future period.

7 Earnings per share – weighted average number of ordinary shares

Half-Year	2018 Shares	2017 Shares
Weighted average number of ordinary shares used as a denominator in calculating:		
Basic earnings per share	**109,132,264**	109,761,693
Diluted earnings per share	**110,028,767**	110,248,034

8 Business combinations

JA Dunn Funerals, Southern Highlands Funerals, Hope and Sons Funeral Directors and Whitestone Funerals

(a) Summary of acquisitions

On 3 March 2018, a subsidiary, InvoCare Australia Pty Ltd, completed the acquisition of the business assets of J A Dunn Funerals based in Launceston, Tasmania. The business has been operating in their local community for more than 100 years.

On 7 June 2018, a subsidiary, InvoCare Australia Pty Ltd, completed the acquisition of the business assets of Southern Highlands Funerals based in Moss Vale, New South Wales. The business has been operating in their local community for more than 20 years.

On 22 June 2018, a subsidiary, InvoCare New Zealand Limited, completed the acquisition of the business assets of Hope and Sons and Whitestone Funerals based in the South Island of New Zealand. The businesses have been operating in their local community for more than 130 years.

Provisional accounting for these acquisitions has been completed as at 30 June 2018.

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

(b) Purchase consideration

	$'000
Purchase consideration	
Total Cash paid	16,522
Fair value of net identifiable assets acquired (refer (c) below):	5,032
Goodwill	11,490

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

(c) Assets required

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

	Fair Value $'000
Property and equipment	4,627
Prepaid contract assets	1,492
Brand name	978
Other assets	213
Prepaid contract liabilities	(1,757)
Other liabilities	(521)
Net identifiable assets acquired	5,032

If the acquisitions had occurred on 1 January 2018, consolidated revenue for the half-year ended 30 June 2018 would have increased by approximately $3,629,000 and profit after tax by approximately $502,000.

9 Contingencies

	June 2018 $'000	December 2017 $'000
The parent entity and consolidated entity had contingent liabilities at 30 June 2018 in respect of bank guarantees given for leased premises of controlled entities to a maximum of:	**1,981**	**1,702**

10 Fair value measurement

The Group measures and recognises the following financial assets and liabilities at fair value on a recurring basis:

- Prepaid contract funds under management;
- Derivative financial instruments; and
- Contingent consideration.

As of 1 January 2013, the Group adopted AASB 13 *Fair Value Measurement* which requires the disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

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

	June 2018 $'000	December 2017 $'000
Level 2		
Prepaid contract funds under management	**554,576**	545,825
Derivative financial instruments	**(1,523)**	(1,997)
Level 3		
Contingent consideration	**(183)**	(182)

There were no transfers between levels during the reporting period. The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

No financial instruments or derivatives are held for trading.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

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.

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) of the 2017 Annual Financial Report.

11 Events occurring after balance date

Since the end of the half-year, between 10 July 2018 and 15 August 2018 the Group has acquired the business assets of the following entities for an aggregate purchase consideration of $42,250,000:

a. English Rose Funerals in Adelaide, South Australia;

b. Archer and Sons in South West region of Western Australia;

c. Lester and Son in Albury and Wodonga in New South Wales and Victoria;

d. Grafton and District Funerals in Clarence Valley, New South Wales;

e. William Morrison Funeral Director Limited in Auckland, New Zealand.

Provisional accounting for these acquisitions is yet to be completed as at the date of this report.

Other than above, no significant subsequent events, not otherwise disclosed, have occurred since 30 June 2018.

12 Finance cost

The table below provides further details on Finance costs as reported in the Consolidated Income Statement:

Half-Year	Notes	2018 $'000	2017 $'000
Operational finance costs		**7,503**	6,214
Interest expense on advance payments	13	**2,586**	-
Total finance costs as reported on Consolidated Income Statement		**10,089**	**6,214**
Interest expense on prepaid contracts	4	**9,436**	-

13 Changes in accounting policies

This note outlines the impact of the adoption of AASB 15: *Revenue from Contracts with Customers* and AASB 9: *Financial Instruments* on the Group's Consolidated Financial Statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

The Group adopted the new standards using the modified retrospective approach which means the cumulative impact of the adoption was recognised in retained earnings as of 1 January 2018 and, as explained in notes 13(b) and 13(c) below, comparative information was not required to be restated.

13 Changes in accounting policies continued

The following tables show the final adjustments recognised for each individual line item. Some adjustments have been updated from the estimates disclosed in the Group's 2017 Annual Report. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail below.

Consolidated Balance Sheet	31 December 2017 As originally presented $'000	AASB 15 $'000	1 January 2018 Restated $'000
ASSETS			
Current assets			
Trade receivables	43,288	(33,400)	9,888
Inventory	29,133	11,260	40,393
Deferred selling costs	1,725	4,400	6,125
Other current assets	68,267	-	68,267
Total current assets	142,413	(17,740)	124,673
Non-current assets			
Trade and other receivables	30,951	(21,973)	8,978
Deferred selling costs	9,702	28,050	37,752
Other non-current assets	1,001,495	-	1,001,495
Total non-current assets	1,042,148	6,077	1,048,225
Total assets	1,184,561	(11,663)	1,172,898
LIABILITIES			
Current liabilities			
Deferred revenue	11,500	4,800	16,300
Prepaid contract liabilities	38,949	-	38,949
Other current liabilities	81,650	-	81,650
Total current liabilities	132,099	4,800	136,899
Non-current liabilities			
Deferred tax liabilities	55,427	(14,850)	40,577
Deferred revenue	53,334	59,820	113,154
Prepaid contract liabilities	413,135	28,590	441,725
Other non-current liabilities	248,149	-	248,149
Total non-current liabilities	770,045	73,560	843,605
Total liabilities	902,144	78,360	980,504
Net assets	282,417	(90,023)	192,394
EQUITY			
Contributed equity	136,344	-	136,344
Reserves	5,046	-	5,046
Retained earnings	139,843	(90,023)	49,820
Parent entity interest	281,233	(90,023)	191,210
Non-controlling interest	1,184	-	1,184
Total equity	282,417	(90,023)	192,394

13 Changes in accounting policies continued

(b) AASB 15: *Revenue from Contracts with Customers* - Impact of adoption & changes to accounting policies

In accordance with the transition provisions in AASB 15: *Revenue from Contracts with Customers*, the Group has adopted the new rules prospectively from 1 January 2018 and was not required to restate comparatives for the 2017 financial year. The new rules have resulted in changes in accounting policies and the following adjustments were made to the amounts recognised in the balance sheet and retained earnings at the date of initial application (1 January 2018):

		Transition adjustments				
Balance Sheet	AASB 118 carrying amount 31 December 2017 $'000	Prepaid funeral service contracts (i) $'000	Cemetery & Crematorium memorial products (ii) $'000	Significant financing on customer advance payments (iii) $'000	Subtotal $'000	AASB 15 carrying amount 1 January 2018 $'000
Assets						
Trade receivables	74,239	-	(55,373)	-	(55,373)	18,866
Inventories	29,133	-	11,260	-	11,260	40,393
Deferred selling costs	11,427	20,100	12,350	-	32,450	43,877
Liabilities						
Deferred revenue	64,834	30,200	26,810	7,610	64,620	129,454
Prepaid contract liabilities	452,084	-	-	28,590	28,590	480,674
Deferred tax liabilities	55,427	(3,030)	(960)	(10,860)	(14,850)	40,577
Equity						
Retained earnings	139,843	(7,070)	(57,613)	(25,340)	(90,023)	49,820

(Table 1) Current & non-current amounts have been aggregated

At 30 June 2018, the application of the new standard resulted in the following financial impacts on the consolidated balance sheet since transition:

		Amounts recognised in period to 30 June 2018				
Balance Sheet	1 January 2018 $'000	Prepaid funeral service contracts (i)(a) $'000	Cemetery & Crematorium memorial products (ii)(a) $'000	Significant financing on customer advance payments (iii)(a) $'000	Other movements (iv) $'000	30 June 2018 $'000
Assets						
Trade receivables	18,866	-	-	-	8,208	27,074
Inventories	40,393	-	(1,618)	-	2,523	41,298
Deferred selling costs	43,877	485	(1,340)	-	392	43,414
Liabilities						
Deferred revenue	129,454	1,668	(8,670)	-	8,920	131,372
Prepaid contract liabilities	480,674	-	-	4,813	5,843	491,330
Deferred tax liabilities	40,577	(355)	1,713	(1,444)	(523)	39,968
Equity						
Retained earnings	49,820	(828)	3,998	(3,369)	(9,208)	40,413

(Table 2)

13 Changes in accounting policies continued

For the six months to 30 June 2018, the application of the new standard resulted in the following financial impacts in the consolidated income statement:

AASB 15 Impacts on Consolidated Income Statement	Prepaid funeral service contracts (i)(a) $'000	Cemetery & Crematorium memorial products (ii)(a) $'000	Significant financing on customer advance payments (iii)(a) $'000	30 June 2018 $'000
Revenue (decrease) / increase	(891)	10,479	4,623	14,211
Finished goods, consumables and funeral disbursements (increase) / decrease	-	(1,618)	-	(1,618)
Employee benefits expense (increase) / decrease	485	(1,340)	-	(855)
Operating EBITDA		7,521		
Net gain / (loss) from undelivered prepaid contracts	-	-	(9,436)	(9,436)
Finance costs (increase) / decrease	(777)	(1,809)	-	(2,586)
Profit / (loss) before tax	(1,183)	5,711	(4,813)	(285)
Income tax (expense) / benefit	355	(1,713)	1,444	85
Profit / (loss) after tax	(828)	3,998	(3,369)	(199)

(Table 3)

(i) Accounting for prepaid funeral service contracts

Impact of adoption of AASB15:

Under the new standard, the upfront administration fee received, on sale of a new prepaid contract, will be deferred along with the related selling costs until delivery of the underlying service. The administration fee recognised as revenue in prior periods will now be recognised on delivery of the underlying service.

As reflected in Table1, to reflect this change in policy, the Group has deferred $30.2 million of revenue in relation to administration fees and $20.1 million of related selling costs where the underlying service has not been delivered at 31 December 2017. Deferred tax liabilities have been reduced by $3.0 million and a net adjustment to retained earnings of $7.1 million.

(i)(a) Application of the new standard since transition

The amounts shown in Tables 2 and 3 reflect the impact on the consolidated balance sheet and consolidated income statement of the net deferral of revenue and selling costs associated with the sale and redemption of prepaid contracts, finance costs recognised on the customer advances and related income tax benefit arising on the resulting net loss for the period to 30 June 2018.

(ii) Accounting for Cemetery & Crematorium memorial products ('memorial products')

Accounting policy from 1 January 2018:

The Group's deliverables under memorial contracts are:

- **Interment right** – An interment right is the right to be committed in a designated space in a cemetery in perpetuity. The specific site is allocated at the time of signing the contract. Upon receipt of the final payment, a certificate of exclusive right of interment was issued to the customer for contracts pre-1 January 2018.

- **Headstone/monument/gardens** – In a memorial products contract, a customer purchases a memorial, such as headstone/heritage garden/monument, to be installed on the interment site. The memorial may be on site at the time of purchase or may be delivered at a future time. Typically, there is a considerable time lag between a contract being signed and the delivery of the memorial. These items are tracked on a contract by contract basis and recognised as revenue upon delivery.

- **Plaques** (and other associated smaller merchandise) – These products are delivered to the customer on an 'at-need' basis (i.e. when the beneficiary has passed away). The

13 Changes in accounting policies continued

revenue recognised for plaques and other associated smaller merchandise such as ash containers, vases and photos, where actual deliveries are not individually tracked, are managed on a portfolio basis given the small value of the individual items. The revenue is recognised over a 15-year period on a straight-line basis. The 15-year period represents an actuarial estimate of when the contracts will be delivered.

Billing and collection of memorial products contracts can be immediate and in full upon contract signing. However, most memorial products contracts are typically paid via instalments over a period of up to 5 years (repayment periods vary).

Revenue is recognised when control of the interment right and associated memorial passes to the customer. For memorial product contracts entered into with customers prior to 1 January 2018, the customer gains control of the interment right on full and final settlement. For contracts entered into from 1 January 2018, the customer gains control of the interment right at contract inception, thereby allowing revenue to be recognised on delivery.

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.

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

Impact of adoption of AASB 15:

Under AASB 15 the main impact on the Group's revenue recognition practice arises from the change from a 'risk and rewards' model under AASB 118 to a 'control' based model under AASB 15. The interment right, memorial products and plaques are each considered to be distinct performance obligations under AASB 15 as a customer can use the site without a memorial and there is not a transformative or integrated relationship between the products. The transfer of control of these distinct performance obligations determines when revenue should be recognised.

Based on the assessment of the impacts of AASB 15, the Group reviewed all open prepaid memorial products contracts as at 31 December 2017.

Based on the previous contract payment terms, the total contracted revenue of $82.2 million previously recognised under AASB 118 will be recognised as revenue over the next 5 years under AASB 15 as customers finish their instalment plans. This amount includes deferred revenue representing $26.8 million of cash already received and the collection of future instalment payments of $55.4 million, who had outstanding balances at 31 December 2017.

Related selling costs and inventory items were increased by $12.3 million and $11.3 million, respectively, as control of the interment right and associated memorial had not passed to these customers under these contracts. In addition, deferred tax liabilities were decreased by $1.0 million and a net adjustment to retained earnings of $57.6 million was recognised.

The recognised adjustment to retained earnings is lower than the amount estimated and disclosed in Note 1(aa) of the 2017 Annual Financial Report by $35.7 million. This is due to the reduction in the deferred revenue to $26.8 million to reflect the cash already received from customers for which services are yet to be performed, with a corresponding increase in the deferred tax liability of $16.6 million.

(ii)(a) Application of the new standard since transition

The amounts shown in Tables 2 and 3 reflect the impact on the consolidated balance sheet and consolidated income statement of the recognition of revenue, selling costs and cost of sales associated with pre-1 January 2018 contracts where customers have made full payment and gained control of the interment right. In addition, the finance costs relate to the financing component on customer advances for the six months and the income tax expense arises from the net profit for the period to 30 June 2018.

13 Changes in accounting policies continued

(iii) Accounting for significant financing on customer advance payments

Accounting policy from 1 January 2018:

Prepaid funeral, burial and cremation services

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.

Financing components

The group has contracts where the period between payment by the customer and transfer of the promised goods or services to the customer exceeds one year. As a result, the Group adjusts the deferred revenue and prepaid contract liabilities using a discount rate that results in revenue being recognised that approximates the cash selling price the customer would have paid if the consideration was paid at the same time as the services were provided.

Significant estimates and judgements

Significant financing component

The group has contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the group adjusts the deferred revenue using a discount rate that 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.

Impact of adoption of AASB 15:

Under AASB 15 the initial recognition of the financing component is recognised as an element of deferred revenue and prepaid contract liabilities.

On delivery of a prepaid funeral service contract, under AASB 118, the Group previously recognised an expense reduction for the impact of price rises recognised after initial recognition. Under AASB 15, this practice has ceased and the Group recognises the financing component as a component of revenue.

Based on the assessment of the impacts of AASB 15, the Group reviewed all customer advance payments related to open prepaid funeral service and memorial products contracts as at 31 December 2017. This resulted in $7.6 million of revenue being deferred (relating to the financing component) and $28.6 million of financing component relating to prepaid contract liabilities. In addition, deferred tax liabilities were decreased by $10.9 million and a net adjustment to retained earnings of $25.3 million was recognised.

(iii)(a) Application of the new standard since transition

The amounts shown in Tables 2 and 3 reflect the impact on the consolidated balance sheet and consolidated income statement of the recognition of revenue related to the redemption of prepaid contracts in the period, offset by the finance costs relating to the financing component on unperformed prepaid contracts and related income tax benefit arising on the resulting net loss for the period to 30 June 2018.

(iv) Other movements

These relate to movements on balance sheet items unrelated to the impact of adoption of AASB 15 or AASB 9 and reflect the movements on balance sheet line items associated with normal trading activities.

13 Changes in accounting policies continued

(c) AASB 9 *Financial Instruments* - Impact of adoption and changes to accounting policies

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies but there were no adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below.

(i) Financial assets

Accounting policy from 1 January 2018:

Classification

From 1 January 2018, the Group holds two types of financial assets which it classifies in the following measurement categories:

- those to be measured subsequently at Fair Value through Profit or Loss (FVPL) (i.e. Prepaid contract under management),
- those to be measured at amortised cost, and
- the Group does not have any financial assets that would be measured at Fair Value through Other Comprehensive Income (FVOCI).

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated income statement.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

(ii) FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the consolidated income statement and presented net within other gains/ (losses) in the period in which it arises.

Impairment

From 1 January 2018, the group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

13 Changes in accounting policies continued

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated income statement.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

(ii) FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the consolidated income statement and presented net within other gains/ (losses) in the period in which it arises.

Impairment

From 1 January 2018, the group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

13 Changes in accounting policies continued

Impact of adoption of AASB 9:

Impairment of financial assets

The group's trade receivables for sale of funeral services and cemetery and crematorium memorial products are the only type of financial asset that are subject to the revised AASB 9 impairment methodology. There is no impact of the change in impairment methodology on the Group's retained earnings and equity.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, there was no impairment loss identified.

Trade receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 January 2018 was determined as follows for trade receivables:

1 January 2018	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.2%	1%	8%	48%	
Gross carrying amount ($'000)	12,814	2,392	1,178	5,074	21,458
Loss allowance ($'000)	24	35	100	2,432	2,592

There is no change in the loss allowances for trade receivables as at 31 December 2017.

The loss allowances increased by a further $88,000 to $2,680,000 for trade receivables during the six months to 30 June 2018. The provision would have been the same under the incurred loss model of AASB 139.

When a trade receivable is uncollectible, 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 consolidated income statement.

(ii) Derivative financial instruments

Impact from the adoption of AASB 9:

The interest rate swaps in place as at 31 December 2017 qualified as cash flow hedges under AASB 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of AASB 9 and these relationships are therefore treated as continuing hedges.

InvoCare Limited and Controlled Entities

Directors' Declaration

For the half-year ended 30 June 2018

In the directors' opinion:

(a) the financial statements and notes set out on pages 14 to 37 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporation Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that InvoCare Limited will be able to pay its debts as and when they become due and payable.

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

Richard Fisher
Director

Martin Earp
Director

Sydney
16 August 2018

Independent auditor's review report to the members of InvoCare Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of InvoCare Limited (the company), which comprises the consolidated balance sheet as at 30 June 2018, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for InvoCare Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of InvoCare Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of InvoCare Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

MW Chiang
Partner

Sydney
16 August 2018