



Dignity plc Annual Report & Accounts 2010

Serving local communities for generations



About Dignity

Dignity owns 567 funeral locations and operates 33 crematoria in the United Kingdom. The Group continues to have a strong market presence in pre-arranged funeral plans, where people plan and pay for their funeral in advance.

We are a FTSE 250 company listed on the London Stock Exchange, with over 2,400 employees serving families and local communities across the United Kingdom for generations.

What we believe in:

- we are here to help people through one of the most difficult times in their lives;
- we do this with compassion, respect, openness and care; and
- we want to be the company that everyone knows they can trust in their time of need.

Our strategy

We plan to grow the profitability of our business by:

- operating in a traditional market where people use our services based on our reputation and through recommendations, where we believe our continued commitment to excellent service for our clients will generate a high level of referral and organic revenue growth;
- continuing to control our operating costs;
- selective acquisition of additional funeral locations;
- developing, managing or acquiring additional crematoria where possible; and
- national marketing, principally through affinity partners, of pre-arranged funeral plans.

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Front cover: Rachael Barber, Area Manager for Norwich and North Anglia and the third generation of her family to serve local communities in the funeral profession, with Ken Fickling, Funeral Director, outside Fenland Crematorium in Cambridgeshire.

Key financial highlights

Current period financial highlights	2010	2009	Increase %
Revenue (£million)	199.1	184.7	8
Underlying operating profit ^(a) (£million)	61.0	56.4	8
Underlying profit before tax ^(a) (£million)	40.4	36.4	11
Underlying earnings per share ^(b) (pence)	46.4	40.5	15
Cash generated from operations (£million)	74.5	65.3	14
Operating profit (£million)	60.4	57.5	5
Profit before tax (£million)	39.8	37.5	6
Basic earnings per share (pence)	46.9	41.8	12
Interim dividend (pence) ^(c,d)	–	4.03	n/a
Final dividend (pence) ^(e)	8.07	7.34	10
Return of Value (£million)	63.9	–	n/a

(a) Underlying profit is calculated as profit excluding profit on sale of fixed assets and transaction costs.

(b) Underlying earnings per share is calculated as profit on ordinary activities after taxation, before profit on sale of fixed assets and transaction costs (both net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.

(c) Interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period.

(d) An interim dividend was not paid separately, but was instead included within the £1 Return of Value per Ordinary Share paid October 2010.

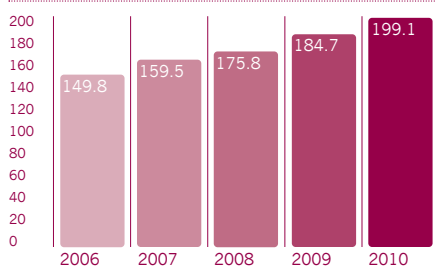
(e) The final dividend represents the final dividend that was approved and paid in the period relating to the earnings generated in the previous period.

Revenue up 8%
to £199.1 million

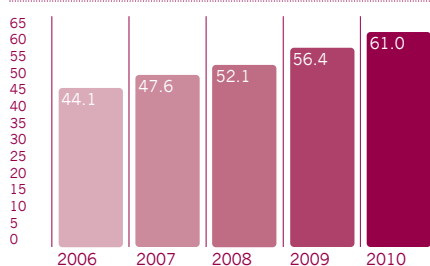
Underlying operating
profit up 8% to
£61.0 million

Underlying earnings
per share up 15% to
46.4 pence per share

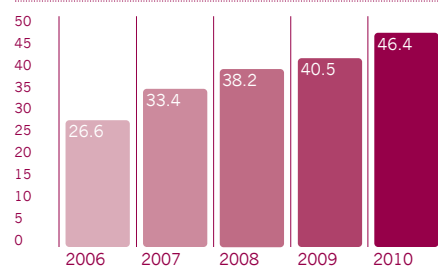
Revenue (£million)



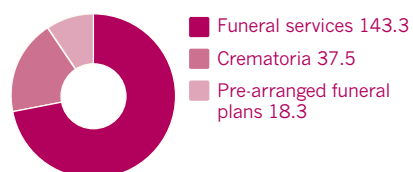
Underlying operating profit (£million)



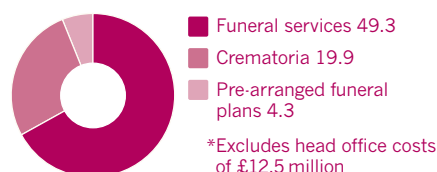
Underlying earnings per share (pence)



Revenue by area (£million)



Underlying operating profit by area* (£million)



Dignity at a glance

The Group's operations are managed across three main areas, namely **funeral services**, **crematoria** and **pre-arranged funeral plans**. Our people across the business are dedicated to making a difference to the local communities they serve. We aim to achieve our business objectives in a caring and responsible manner, recognising the economic, social and environmental impact of our activities.

Funeral services



Business overview

Funeral services revenues relate to the provision of funerals and ancillary items such as memorials and floral tributes. We operate a network of 567 funeral locations throughout the United Kingdom trading under established local trading names. In 2010, the Group conducted 64,500 funerals, which represents approximately 11.5 per cent of estimated total deaths in Britain.

72%

Group revenue share

567

Number of funeral locations in the UK

64,500

Number of funerals conducted during 2010

Crematoria



Business overview

Crematoria revenues arise from cremation services and the sale of memorials and burial plots at the Group's crematoria and cemeteries. We are the largest single operator of crematoria in Britain. We operate 33 crematoria in England and Scotland and carried out 45,200 cremations in 2010 representing 8.1 per cent of estimated total deaths in Britain.

19%

Group revenue share

33

Number of crematoria in England and Scotland

45,200

Number of cremations conducted during 2010

Pre-arranged funeral plans



Business overview

Pre-arranged funeral plans income represents amounts to cover the costs of marketing and administering the sales of plans. Pre-arranged funeral plans allow people to plan and pay for their funeral in advance. The Group has a strong market presence in the provision of pre-arranged funeral plans with 238,000 unfulfilled funeral plans as at 31 December 2010. Dignity works with a number of reputable affinity partners.

9%

Group revenue share

238,000

Number of unfulfilled funeral plans as at 31 December 2010

Our performance in 2010

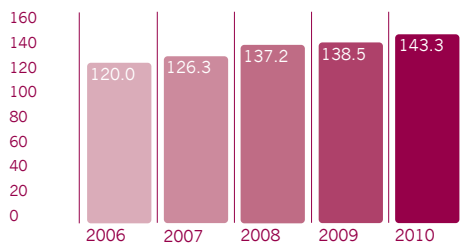
The Group has performed strongly in 2010 with revenue up 8 per cent, underlying operating profit up 4 per cent and underlying earnings per share up 15 per cent.

Operational and financial summary

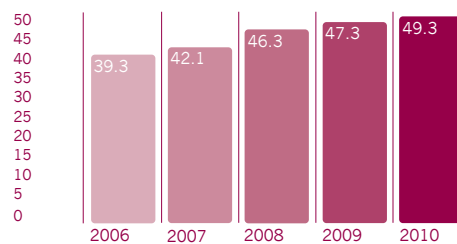
Revenue up 3%
to £143.3 million

Underlying operating profit
up 4% to £49.3 million

Revenue (£million)



Underlying operating profit (£million)



Key developments

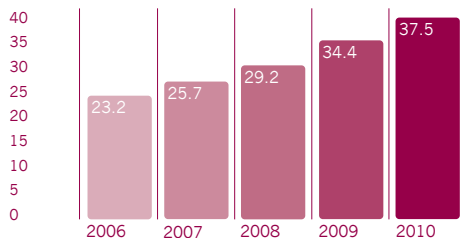
- Good cost control has helped performance.
- Six locations acquired.
- 18 satellite locations opened.

Operational and financial summary

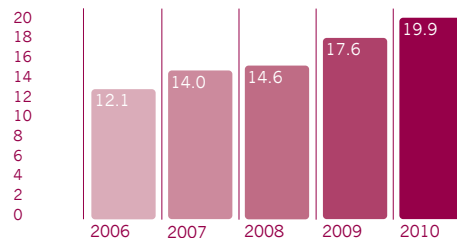
Revenue up 9%
to £37.5 million

Underlying operating profit
up 13% to £19.9 million

Revenue (£million)



Underlying operating profit (£million)



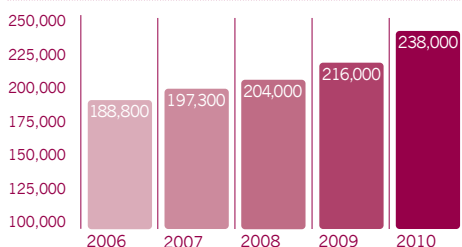
Key developments

- Division performed well with significant growth year on year.
- Three locations added in the year.
- Two further locations due to open in 2011.
- Mercury abatement project on track for completion in 2012.

Operational and financial summary

Total unfulfilled pre-arranged
funeral plans increased to 238,000

Total number of unfulfilled pre-arranged funeral plans



Key developments

- Strong performance in the period.
- Plans outstanding continue to grow.
- The most successful sales year since the creation of pre-arranged funeral plans.

Chairman's statement

“Underlying earnings per share have increased 15 per cent.”



Peter Hindley, Chairman

Results

I am pleased to report that Dignity has continued its track record of strong profit growth.

Underlying operating profits have increased by 8 per cent to £61.0 million (2009: £56.4 million). Underlying earnings per share have increased 15 per cent to 46.4 pence per Ordinary Share (2009: 40.5 pence per Ordinary Share).

Dividends

The Board is proposing a final dividend of 8.88 pence per Ordinary Share to be paid on 24 June 2011 to members on the register at close of business on 27 May 2011. This dividend is subject to the approval of shareholders at the Annual General Meeting on 9 June 2011. This final dividend represents a 10 per cent increase on the equivalent dividend paid in the previous year.

This will be the only dividend paid in respect of profits generated in 2010, as an interim dividend was not paid separately, but was instead included within the £1 Return of Value per Ordinary Share paid in October 2010.

New Secured Notes and Return of Value

In the second half of the year, the Group issued further Secured Notes, raising gross proceeds of £87.1 million. The majority of the proceeds were returned to shareholders. This demonstrates the Group's continued ability to leverage its stable cash flows for the benefit of its shareholders by replacing relatively expensive equity with cheaper debt that also benefits from a tax deduction.

The Board

There were no changes to the Board in the year and I am pleased that Ishbel Macpherson and Alan McWalter have both agreed to remain Non-Executive Directors until the end of 2012 to serve alongside James Newman and Bill Forrester. I have also signed a new contract for a further three year period. I will therefore, remain Chairman until December 2013.

I would like to thank all my fellow Directors for their support during another successful year.

Our people

This business continues to set client service excellence as a key objective. Once again, 98 per cent of families would recommend our services and 99 per cent said we either met or exceeded their expectations. This is due to the continued dedication of our staff across the entire business and I thank them for the roles they have each played during the year.

I am delighted that as a Group, we continue to invest heavily to support our staff by keeping open our defined benefit pension scheme, through training, a generous staff sick pay scheme, awards for long service and grants for personal development via the Welfare Trust. In return, we have loyal staff, with more than half having worked for the Group for over five years, who are all dedicated to helping our clients every step of the way.

Outlook for 2011

The year has started well in all three divisions of our business and the Board remains confident in the Group's prospects.

Serving local communities for generations

1840	1848	1855	1857	1857	1876	1880	1884
<p>Francis Chappell & Sons, London Francis Chappell & Sons, London have been part of the southeast London community since 1840, when the founder, John Chappell, opened the first branch on Deptford High Street.</p>	<p>J Rymer Funeral Service, York In 1848, James Rymer founded the family business in premises very close to York Minster. By 1925, Jack Rymer, then aged 15, was managing the business after the death of his father. J Rymer Funeral Service joined the Dignity network in 1994 and today is managed by the sixth generation of the Rymer family.</p>	<p>Binns & Gutteridge, Leicestershire Binns Funeral Directors was listed in a local trade directory in 1855. In the early 20th century there were several competing funeral businesses bearing this name – all run by different members of the Binns family, until they amalgamated with another local funeral director and Binns & Gutteridge was established.</p>	<p>Lawrence Funeral Service, Halifax In 1857, John Lawrence established his family business, J Lawrence & Sons, in Halifax, Yorkshire. They produced furniture but occasionally made coffins for local families. By 1945, the Lawrence family were arranging enough funerals to open a chapel of rest.</p>	<p>E Finch & Sons, Aldershot In 1857, Emmanuel Finch established E Finch & Sons on the High Street of Aldershot. During the 20th century the business built its reputation by conducting military funerals and pioneering many new initiatives, including the first motorised hearse in the area.</p>	<p>Beckenham Cemetery, Kent Beckenham Cemetery, the oldest cemetery operated by Dignity, opened in 1876. It includes the resting place of cricketing legend W G Grace.</p>	<p>J H Kenyon, London James H Kenyon opened his first funeral location on Edgware Road in 1880. The business expanded to include five branches in northwest London and became one of the most well-known names in the profession, conducting funerals for the Royal Family, politicians and other prominent figures.</p>	<p>Frederick W Paine, London Charles Paine opened his first funeral location in Station Road, New Malden, in 1884. Ten years later the business was passed on to his eldest son, Frederick W Paine, who opened two further funeral locations over the next few years.</p>

Chief Executive's overview

“Serving the people in our local communities at one of the most difficult times in their lives remains at the centre of everything we do at Dignity.”

Mike McCollum, Chief Executive



Delivering profitable growth and building value for shareholders

I am delighted that yet again, Dignity has delivered strong growth in its operating performance and earnings per share by continuing to follow its long term strategy. Since the end of 2007, which marked the start of the recent economic crisis, the Group's underlying operating profits have grown by 28 per cent, cash generated from operations has increased by 26 per cent and underlying earnings per share have increased by 39 per cent. The results for 2010 represent the seventh consecutive year of growth in each of these measures.

The Return of Value in the year means that an investor at the time of the IPO will have had nearly all their initial investment returned in cash and still hold shares in Dignity which, at the current market price, are worth approximately twice their original investment.

Our consistent strategy and business model continue to drive performance:

Continued commitment to client service excellence

We monitor many details about the services we perform and the tremendous responses we get back from the families we serve demonstrate the high level of service that we provide. Details of these responses are summarised in the Business Review.

Continuing to control our costs

It is crucial that as well as increasing revenues, we control our costs. I am pleased that cost control has remained strong and that the Group remains focused on this important aspect of our strategy.

Selective acquisitions of additional funeral locations

We continue to identify and acquire well established businesses and incorporate them into our funeral location portfolio. The funeral services market remains very fragmented, which should lead to further acquisition opportunities in the coming years. In addition, we are testing a number of satellite funeral locations.

Developing, managing or acquiring additional crematoria where possible

In the last couple of years, development activity in the crematoria division has increased significantly.

Our crematoria portfolio has increased to 33 with a further two due to become operational in 2011.

National marketing, principally through affinity partners, of pre-arranged funeral plans

This source of incremental future business for our funeral division has had a very successful year. This is attributable to strong relationships being developed with our affinity partners, in particular the Age UK charity.

A strong platform for sustainable growth

Over the years, we have demonstrated that the strategy we operate suits the stable nature of this business. This was demonstrated very well in 2010 with the Group rebalancing its capital structure through the issue of further Secured Notes and the return of £1 per Ordinary Share to our shareholders.

Valuing our people

Our history of success is undoubtedly due to our stable and experienced management team. I remain grateful for their ceaseless efforts to improve the service we provide. All our staff remain key to the success of this business. I would like to pay tribute to each of them and in particular thank them for the extraordinary lengths they went to in December during the terrible weather. As a result of their efforts, only a very small number of funerals and cremations had to be rescheduled.

It gives me great pleasure that we were able to share the Group's success with our staff, by paying a total of £1.7 million discretionary bonus payments, an increase of 13 per cent on the previous year. All full time employees with full attendance received over £1,000.

Serving our local communities for generations

We are funeral people. This is all we do and we are obsessive about it. Our local businesses have, in many cases, been established in their communities for generations and to this day we have many employees who are descendants of the founders of those businesses.

Serving the people in our local communities at one of the most difficult times in their lives remains at the centre of everything we do at Dignity.

1903

Birmingham Crematorium
Birmingham Crematorium opened in 1903. At this time it was only one of nine crematoria in the UK.

1914

John Bardgett & Son, Newcastle upon Tyne
John Bardgett, who had been a branch manager of another local funeral director, established his own business in 1914. By 1916 his three sons, John Ernest, Arthur and Stanley had joined him and formed a limited company in 1935. They were the first funeral services in Newcastle to have motorised vehicles.

1928

Jonathan Harvey, Glasgow
In 1928, Jonathan Harvey, a local motor engineer who managed a vehicle hire company and cab service, opened a funeral business on Argyle Street in Glasgow. A second Jonathan Harvey funeral location was established in 1950 and over the next 40 years another four branches were opened in the city.

1930

South London Crematorium
Following World War One more people became interested in cremation and the fifth crematorium in London was built in Streatham in 1930. There were originally three chapels but only St George's remains in use today. The mausoleum was the first to be built in Britain in over 150 years.

1950

Seaford & Newhaven Funeral Service, East Sussex
C Morling Ltd, primarily a building company whose carpenters had made coffins for over 100 years, opened an office in Seaford as its funeral business.

1994

Dignity Caring Funeral Services
All of these businesses came together in 1994 when Dignity was created through the merger of Plantsbrook Group and Great Southern Group and was re-branded as Dignity in 2001.

2008

Northern Ireland
Dignity acquires six branches in Northern Ireland. Three of these are in Belfast with one each in Bangor, Newtonabbey and Carrickfergus.

Today

Dignity is a British company that is listed on the London Stock Exchange.
Dignity maintains the rich heritage of these companies and we strive to set the highest standards in the industry.

Business review



Above: In the late 1920's G Hogben & Sons on the Isle of Sheppey moved into a new era with a gleaming motorised hearse.



Above right: Dignity invested approximately £4 million in 2010 in new vehicles.

Serving local communities for generations...

Introduction

The Group's operations are managed across three main areas; funeral services, crematoria and pre-arranged funeral plans, which respectively represented 72 per cent, 19 per cent and 9 per cent of the Group's revenues in 2010. Funeral services revenues relate to the provision of funerals and ancillary items, such as memorials and floral tributes. Crematoria revenues arise from cremation services and the sale of memorials and burial plots at the Group's crematoria and cemeteries. Pre-arranged funeral plan income represents amounts to cover the costs of marketing and administering the sale of these plans.

Office for National Statistics data

Some of the Group's key performance indicators rely on the total number of estimated deaths for each period. This information is obtained from the Office for National Statistics (ONS).

The initial publication of recorded total estimated deaths in Britain for the 53 weeks in 2010 was 557,000 compared to 545,000 for the 52 weeks in 2009. Historically, the ONS has updated these estimates from time to time. As in previous years, the Group does not restate any of its key performance indicators when these figures are restated in the following year.

Funeral services

Overview

The Group operates a network of 567 (2009: 546) funeral locations throughout the United Kingdom, trading under local established names. During the period, the Group conducted 64,500 funerals (2009: 65,000). Approximately 1 per cent of these funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represent approximately 11.4 per cent (2009: 11.8 per cent) of total estimated deaths in Britain. However, because 2010 was a

53 week year, the 53rd week produces non-comparable market share data. Taking the more comparable trailing 52 weeks, market share was essentially flat at 11.5 per cent (2009: 11.6 per cent).

In addition, whilst funerals divided by estimated deaths is a reasonable measure of our market share, the Group does not have a complete national presence. Consequently, this calculation can only ever be an estimate.

Delivering client service excellence: the Dignity client survey

To ensure we maintain the highest levels of client service excellence, all Dignity funeral locations send a written client survey to the families we serve. In the last five years, we have received over 150,000 responses and from the responses in the last year we know that, having received the final invoice:

- 99.2 per cent of respondents said that we met or exceeded their expectations;
- 98.1 per cent of respondents would recommend us;
- 99.9 per cent thought our staff were respectful;
- 99.8 per cent thought our premises were clean and tidy;
- 99.8 per cent thought our vehicles were clean and comfortable;
- 99.7 per cent thought our staff listened to their needs and wishes;
- 99.2 per cent of clients agreed that our staff had fully explained what would happen before and during the funeral;
- 99.2 per cent agreed that our staff were compassionate and caring;
- 98.9 per cent said that the funeral service took place on time; and
- 98.9 per cent said that the final invoice matched the estimate provided.

Developments

2010 has been a good year for funeral operations. Underlying operating profits were £49.3 million (2009: £47.3 million), an increase of 4 per cent. The difference



We are continuing to improve our skills and knowledge through training initiatives

Dignity's Training Department provides a variety of role specific courses to ensure that staff continue to fulfil their potential and meet the needs of our clients. These courses are continually assessed via feedback from delegates and line managers to guarantee that they are relevant and add value to the contribution made by each employee.

Left: Annie Pamplin, Training Manager, at Dignity's dedicated training facility in the West Midlands.

Dedicated people, committed to client service excellence

Providing advice, care and support to the families we serve

At Dignity we are dedicated to achieving excellence in all we do and we strive to set the highest standards for the funeral profession in terms of client service and care for the deceased. Our funeral directors and arrangers come from the cities and towns they serve or families that have been in the funeral profession for generations. This means they understand local traditions and can help our clients every step of the way.

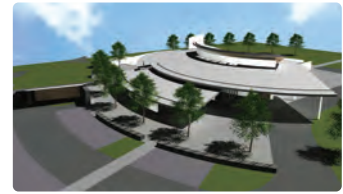
By choosing a Dignity business families can be assured that client service, premises and vehicles will all be of the highest standard.

Below: David Harrison, Area Manager for North Tyneside and County Durham and great grandson of William Samuel Harrison, at the branch of W S Harrison & Son in Newcastle-upon-Tyne with Funeral Manager, Christine Hardy and Funeral Director, Alex Thornhill. **Right:** W S Harrison & Son, Whitley Bay.



Business review continued

“99.2 per cent of respondents to the client survey said that we met or exceeded their expectations.”



Above: The construction of St. Faith's Crematorium in Norwich in the early 1930's.

Above right: An artist's impression of the new Wyre Forest Crematorium in Worcestershire.

between statutory amounts and underlying amounts is represented by profit on sale of fixed assets and transaction costs totalling £0.2 million (2009: £1.1 million).

This performance continues to reflect organic revenue growth. Continued strong cost control has ensured that this has translated into operating profit growth.

The Group's funeral services division has benefited from continued investment in the year, with approximately £7.7 million being invested in the period on the refurbishment of our properties and the ongoing renewal of 129 of our fleet of hearses, limousines and other vehicles.

Funeral location portfolio

The Group's funeral location portfolio has increased by 21 in the year, reflecting acquisitions, disposals and the opening of new satellite funeral locations.

Net acquisition investment of £5.8 million increased the portfolio by six funeral locations in the United Kingdom. Each of these acquisitions met the Group's criteria of being larger than average, long-established businesses that fit well within the Group's existing network.

The Group continues to seek businesses that meet the Group's stringent acquisition criteria and has acquired three funeral locations since the end of 2010, representing an investment of £6.4 million. Two of these funeral locations are in Northern Ireland.

18 new satellite funeral locations (2009: one) were opened in the year. The locations are situated close enough to existing business centres to use their specialist vehicles and mortuary equipment, but far enough away that they service new families. In this way, these funeral locations will provide the same outstanding level of client service that people experience from other Dignity funeral locations without the need for significant capital investment.

Such locations are anticipated to be loss making in their first full year of operation and be profitable in their third year of operation.

Three locations (2009: six locations) were closed in the period. This reflects the disposal of some valuable freehold locations for cash that can be reinvested in the business and also some smaller locations at the end of their leases.

Crematoria

Overview

The Group is the largest single operator of crematoria in Britain, operating 33 (2009: 30) crematoria. The Group performed 45,200 cremations (2009: 42,700) in the period, representing 8.1 per cent (2009: 7.8 per cent) of deaths in Britain.

Developments

Operating profits were £19.9 million (2009: £17.6 million), an increase of 13 per cent. This reflects a strong performance from the 22 crematoria owned by the Group for many years, together with the full year effect of recent acquisitions.

The Group has spent £2.1 million (2009: £1.7 million) during the year as part of its obligations to comply with the mercury abatement legislation, which is effective from the end of 2012. As a result of the investment so far, five crematoria now have the required equipment installed and operational. Legislation requires any crematorium constructed after October 2006 to have mercury abatement equipment. Consequently an additional four crematoria within the Group's portfolio already comply with the legislation. We expect to be fully compliant before the 31 December 2012 deadline, by installing equipment at nine other locations.

£1.3 million (2009: £1.7 million) has also been spent on new cremators and other improvements to the crematoria locations. These new cremators have been installed earlier



We are providing families with greater choice

At Dignity we take great care to create a peaceful and tranquil environment at all of our crematoria and Gardens of Remembrance so that visitors can remember their loved ones in a place of serenity and beauty.

We provide a range of memorial options in a variety of materials, colours and styles to ensure that our clients are provided with a focal point for their grief that gives them comfort for many years. Our aim is to offer families a quality memorial that enables them to remember the life they shared with their loved one and is as individual as the person it commemorates.

Left: Geraldine Marchant, Crematorium Manager at Loughborough Crematorium.

Meeting the different needs of the communities we serve

Investing responsibly for the future

As an industry leader we are constantly searching for ways to improve our client service and the impact we have on the communities we serve. During 2010, Dignity opened a new crematorium in Cambridgeshire and began construction of two new state of the art sites in Somerset and Worcestershire. These new crematoria will provide greater convenience for bereaved families by offering reduced journey times and superior facilities.

In 2010, Dignity have also acquired two new crematoria at Weston-super-Mare and Telford in Shropshire.

Below: Chris Black, Manager of Fenland Crematorium with Rachael Barber, Area Manager for Norwich and North Anglia. **Right:** The Gardens of Remembrance at Loughborough Crematorium in Leicestershire.



Business review continued

than necessary, as it was more efficient to replace them now given the works being performed on installing mercury abatement equipment.

During the period, the Group has completed the construction of a crematorium in Cambridgeshire, acquired an established crematorium in Shropshire and started operating Weston-super-Mare crematorium on behalf of the local authority.

Since the year end, the Group has completed construction of a crematorium in Somerset which is due to open by the end of March 2011 and work continues to build a new crematorium in Worcestershire in partnership with the local authority.

These developments represent an investment of £13.9 million in the year and will require capital investment of approximately £6.5 million in 2011.

The Group continues to identify further locations suitable for a new crematorium and is also continuing to seek partnerships with local authorities.

Pre-arranged funeral plans

Overview

The Group continues to have a strong market presence in this area. These plans represent future incremental business for the funeral division, as the Group expects to perform the majority of these funerals.

Developments

The division has performed strongly in the period. Focused marketing activity with its partners has resulted in the number of unfulfilled pre-arranged funeral plans increasing to 238,000 (2009: 216,000) with profits in the division increasing to £2.8 million excluding Recoveries (2009: £2.0 million excluding Recoveries).

From time to time, the Group receives monies from the Trusts, in line with the relevant Trust's deed, which have been assessed by the trustees as not required to ensure the Trust has sufficient assets to meet its future liabilities in respect of current members ('Recoveries'). Recoveries were £1.5 million in each period.

The Group has continued to work hard at developing its portfolio of affinity partners and has formed a number of new partnerships in the period with organisations in the retail and financial services arena.

Central overheads

Overview

Head office costs relate to central services that are not specifically attributed to a particular operating division. These include the provision of IT, finance, personnel and Directors' emoluments. In addition and consistent with previous periods, the Group records the costs of incentive bonus arrangements, such as Long Term Incentive Plans (LTIPs) and annual performance bonuses, which are provided to over 50 managers working across the business.

Developments

Costs in the period were £12.5 million (2009: £12.0 million), an increase of 4 per cent. This year on year increase principally reflects the additional cost of bonuses paid to the operational managers of the business, together with some additional pension costs.

The Group also relocated its head office to refurbished premises within Sutton Coldfield, investing £0.9 million. The new head office also accommodates the Group's customer service centre, which was previously in a separate building within the town.

We are enhancing customer experience and responsiveness

We provide our advisors with extensive training and coaching so that they can help our clients at one of the most difficult times of their lives in a caring and compassionate manner. Our advisors are encouraged to share their knowledge, experiences and best practice to help maintain and improve the service they all provide as individuals.

In October 2010, Dignity's Client Service Centre out-performed national competition and many household names to finish third for customer service in the UK's biggest ever call centre benchmarking exercise.

Left: Lindsey Paris, Amandeep Singh and Tara Wood at Dignity's Client Service Centre in Sutton Coldfield.



Developing new products, building valuable partnerships

Helping people plan for the future

Our Dignity Pre-Arranged Funeral Plans division has built up a unique understanding of our client's needs and created one of the most financially secure funeral plans in the UK. This division continues to grow and exceed sales targets through the development of new products, the instigation of national marketing campaigns and by increasing the number of affinity partners in our portfolio.

Below: Justin Lewis, Dignity's Market Development Manager with Sharon Dobson, Funeral Plan Manager, of Age UK Enterprises.

Key highlights:

Top 3

Dignity's Client Service Centre achieved third place for customer service in the biggest ever survey into UK call centres.

238,000

There were 238,000 unfulfilled pre-arranged funeral plans at the end of the period. This reflects strong sales through the Group's funeral locations and affinity partners.



Funeral plans UK | Planning a funeral

http://www.ageuk.org.uk/duy

Funeral plans UK | Planning a funeral

The new force combining Age Concern and Help Age UK

Home insurance

Motor insurance

Travel insurance

Funeral Plan

- Why buy Age UK Guaranteed Funeral Plan
- Choose your Funeral Plan
- Funeral Plan costs
- Age UK Triple Guarantee
- Frequently asked questions

Gas and Electricity

Holidays

Legal services

Aids for the home

Gifts and flowers

Breakdown cover

Broadband, TV and phone

Equity Release

Annuity Service

Funeral Plan

The Age UK Guaranteed Funeral Plan takes funeral costs and arrangements in advance to understand and arrange. Pay ahead and you freeze funeral costs at today's prices.

Over 180,000 customers

Join the 180,000 people who have already taken out a pre paid Funeral Plan with Age UK.

Find out more about the Age UK Guaranteed Funeral Plan or call 0800 022 3243

Age UK is the new force combining Age Concern and Help Age UK

Benefits of the Age UK Guaranteed Funeral Plan

- Family and friends will not have to make difficult decisions about funeral arrangements at an upsetting time.
- There is no bill left for them to pay for the services covered.

Age UK Guaranteed Funeral Plan

Partners Guide

ageuk

Corporate and social responsibility

“Meeting the needs of clients, shareholders and engaging all our employees whilst considering the communities and environment in which we work is at the heart of our business.”

Richard Portman, Corporate Services Director



Introduction

Dignity is committed to meeting the needs of our clients, shareholders and engaging all our employees whilst considering the impact of our activities on the communities and environment in which we work. We aim to achieve our business objectives in a caring and responsible manner by developing business practices and procedures that reflect this.

Within Dignity, Corporate Services Director, Richard Portman, is accountable for corporate and social responsibility and under this remit identifies major issues and reports these to his fellow Board members.

Management and accountability

The governing principles of Dignity are that we are here to help people at one of the most difficult times of their lives and we do this with compassion, respect, openness and care. Our objective is to be the company that everyone knows they can trust in their time of need.

The flat structure of Dignity means that local management are empowered to make decisions that provide quick and effective solutions to the needs of their clients, businesses and the communities they serve. Only five per cent of our employees are based at our Head Office in Sutton Coldfield where they perform such necessary business tasks as finance, customer service centre, IT, HR and purchasing. This approach demonstrates our commitment to providing staff in locations where they can directly help and support our clients.

Our values, which are set out in our governing principles, are a fundamental part of our culture. By living these values, we ensure that we operate in a responsible way and that we deliver the excellent service upon which our business depends.

We foster a responsible culture:

We make our clients feel confident in us so that they are reassured they are being served by responsible individuals working for a responsible company. We give our clients confidence that they can rely on us to understand their needs and to take care of all the arrangements; and to feel confident that we can be responsible for looking after their loved one.

Dignity has been identified by the FTSE Group in its FTSE4Good initiative as a company that is working towards environmental sustainability, developing positive relationships with stakeholders and upholding and supporting universal human rights.

We have created a culture of workplace safety so that our staff understand and abide by legislation and guidelines ensuring their own health and safety and that of their colleagues and clients. We promote ‘green issues’ and sustainability, continually seeking new initiatives that reduce the impact of our business activities on our environment. Making a positive contribution to charities and our local communities is embedded into our corporate culture and an objective enthusiastically supported by our staff.

We enable our people to excel:

We train and develop our staff to the very highest standards, enabling them to fulfil their potential and giving them the skills to be able to meet and exceed our clients’ expectations.

We build trust and respect:

We build trust and respect with everyone touched by our business operations – our clients, our colleagues, our suppliers, trade authorities and members of our local communities. Everyone at Dignity understands that at all times they are an ambassador for the company and that the future success of the business depends on its reputation.



FTSE4Good

CARBON DISCLOSURE PROJECT

Dignity has been identified by the FTSE Group in its FTSE4Good initiative as a company that meets globally recognised standards of corporate responsibility.

We submit our carbon footprint data to the Carbon Disclosure Project that measures disclosures from thousands of organisations across the world’s major economies.

Our CSR commitments

Our people

Dignity is committed to high standards of employment practice and aims to encourage, retain and develop successful employees.

Health and safety

Our business is conducted at all times in such a way as to ensure, as is reasonably practical, the health, safety and welfare of all our employees and all persons who may be attending our premises.

Our environment

We are committed to maintaining the quality of the environment in which we all live and we aim to reduce the impact of our operations so that we act in an environmentally friendly manner.

Our communities

We are committed to making a difference to both our clients and to improving the welfare of all who live in the communities we serve.

Making a difference

At the heart of what we do

Our corporate responsibility programme focuses on developing our people, creating a culture of workplace safety, promoting environmental sustainability and making a positive impact on the communities we serve.

We aim to achieve our business objectives in a caring and responsible manner by developing business practices and procedures that reflect this. By living these values, we ensure that we operate in a responsible way and that we deliver the excellent service upon which our business depends.

Key CSR highlights:

2,000

2,000 delegates attended training courses facilitated by Dignity's Training Department during the past twelve months.

6.7%

The number of accidents reported per thousand staff employed has been reduced by 6.7 per cent over the last three years.

£7 million

Dignity will invest approximately £7 million to reduce mercury emissions from its crematoria by the end of 2012.

£60,000

Dignity raised £60,000 for its corporate charity, Children's Hospices UK, in 2010.

Below: Stuart Cox, Corporate Communications Manager, Sutton Coldfield.



Corporate and social responsibility continued



Code of Conduct literature

During the year, our Code of Conduct was reinforced when the Company's 'Helping our clients every step of the way' and 'Serving our local communities' brochures were refreshed and distributed to staff at both our funeral locations and crematoria.

Our CSR areas of focus

We have focused our corporate and social responsibilities on four key areas:

- Our people
- Health and safety
- Our environment
- Our communities

Developing key performance indicators

Our people:

Dignity monitors employment applications and appointments to ensure that we comply with all employment legislation. A record is kept of training courses attended by each employee and this is analysed to help develop future training requirements.

Health and safety:

Proactively, health and safety is monitored via quarterly return analysis, premises inspections, health surveillance, line manager observations of how tasks are performed and regular reports to the Board of Directors. Investigating accidents, collation and analysis of statistics and ill-health investigation reactively monitors health and safety.

Our environment:

Dignity submits its carbon data to the Carbon Disclosure Project, a not-for-profit organisation that measures disclosures from thousands of organisations across the world's major economies. The results are disclosed on page 18.

Our communities:

All funds raised for our corporate charity are recorded in detail and can be easily cross-referenced as deposits go into a specific Dignity Charity Account. Therefore the amount of money being raised for charity can be compared with previous performance and this process facilitates funds being allocated to the geographical region that generated them.

Code of conduct

In 2010, Dignity launched its Code of Conduct. This document ensures that all staff are aware of the principles that govern how we operate in the business environment and explains the standards of behaviour that all our employees are expected to adhere to.

The Code of Conduct states that all clients should be supported during the funeral arrangements, at the service or when choosing a memorial or funeral plan in a paternalistic manner. We should be compassionate and caring; pay attention to detail; spend as much time as the client needs; be open and straightforward and keep in regular contact with the client.

Our Code of Conduct was reinforced when the Company's 'Helping our clients every step of the way' brochure was refreshed and distributed to all staff at our funeral locations. The aim of the brochure is to embed all new employees into the Dignity culture and to remind existing members of staff of the standards of behaviour and attitudes that are expected of them. The 'Serving our local communities' brochure has also been redeveloped for staff working at Dignity's crematoria.

The Code of Conduct is also published on the Dignity plc investor website www.dignityfuneralsplc.co.uk.



Valuing our people, enabling them to excel

Dignity is committed to high standards of employment practice and aims to encourage, retain and develop successful employees. We train our staff to the very highest standards to enable them to provide a truly excellent service to our clients.

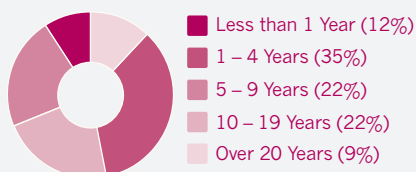
53%
53 per cent of people employed by Dignity have 5 years or more continuous service.

2,000
2,000 delegates attended training courses facilitated by Dignity's Training Department during the past twelve months.

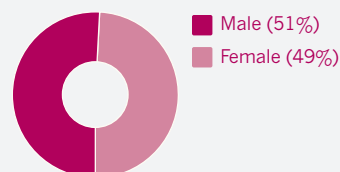
8.6 years
The average length of service for a Dignity employee is 8.6 years.

Left: Mark McGurk, Funeral Manager, and Julie Madsen, Funeral Service Arranger at John Bardgett & Sons in Newcastle-upon-Tyne.

Employee service



Employee ratio



Our people

Dignity is committed to high standards of employment practice and aims to encourage, retain and develop successful employees. As ever our success is due to the on-going commitment of our staff to deliver exceptional levels of client service excellence and staff turnover remains low within the Company.

The average age of our employees is 46 years for both male and female members of staff. The average length of service for an employee is 8.6 years. However, within Dignity, 44 per cent of employees have between 5 and 19 years service and 9 per cent of employees have over 20 years service.

As in previous years there continues to be an almost equal split of male and female staff with 51 per cent male employees and 49 per cent female.

Training and development

Dignity provides direct support to employees through both in-house training and external training courses.

Dignity's Training Department provides a variety of role specific courses to ensure that staff continue to fulfil their potential and meet the needs of our clients. The provision of courses such as 'An overview of making funeral arrangements', which was attended by 106 delegates in 2010, and 'Identification of the deceased and personal effects', which was attended by 637 delegates during the past 12 months, help to reinforce the understanding each employee has of their role and reduces the risk of errors being made when performing their duties.

These courses are continually assessed via feedback from delegates and line managers with a view to guaranteeing that they are relevant and add value to the contribution made by each employee.

Dignity's Training Department also provides a number of management development courses covering more complex issues such as Business Planning, Financial Analysis, Recruitment Skills and Presentation Skills.

Our on the job training concentrates on a "buddy" system where an experienced member of the team provides new operational staff with guidance on the responsibilities of their role, our professional practices and company procedures in addition to demonstrating our commitment to being a client focused organisation.

External training includes both relevant job training and tutoring for professional qualifications. These professional qualifications include the National Association of Funeral Directors (NAFD) Diploma and Membership of the British Institute of Embalmers (BIE). In addition, Dignity has five members of staff who are accredited NAFD tutors and three BIE training specialists.

This year two new training films have been developed to share best practice on 'Bringing the deceased into our care' and 'Spending time with the deceased'. The films will be used for both group and individual development and 167 delegates attended this course in 2010. The two new films complete our suite of training DVD's as the 'Making arrangements' film was completed in 2009.

Dignity provides additional support to staff development through its Welfare Trust, which provides funds for professional training and hardship grants. The Trust has approximately £1.6 million available for future use.

Recognising achievement

Dignity has rewarded its loyal staff with long service and retirement awards totalling approximately £220,000 in 2010 and we expect to spend a similar amount in 2011.



Recognising long service achievements

As ever our success is due to the ongoing commitment and dedication of our staff to deliver exceptional levels of client service excellence.

£220,000

Dignity has rewarded its loyal staff with long service and retirement awards totalling approximately £220,000 in 2010.

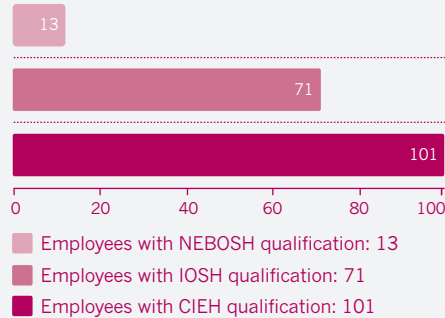
44%

44 per cent of employees have between 5 and 19 years service and 9 per cent of employees have over 20 years service.

Left: Christine Hardy, a Funeral Manager in North Tyneside completed 35 years service in August 2010.

Corporate and social responsibility continued

Health and safety training (Number)



Promoting diversity

Within Dignity there is no discrimination on the grounds of gender, race, religion, age and sexual orientation in terms of recruitment or career advancement. We encourage colleagues to show respect and understanding to each other and prejudice of any kind will not be tolerated.

Recruitment

To aid recruitment needs, a detailed job description identifying key responsibilities and competencies for each role in addition to a personal specification for the ideal applicant have been developed. These enable the interviewer to assess each candidate's suitability for the role to which they have applied.

Competency based interviews are held for all management positions and candidates are expected to be able to clearly demonstrate their experience and expertise during the selection process.

Engaging our staff

Dignity publishes a quarterly in-house magazine, 'Dignity Express', which is supplemented by monthly news bulletins to keep all employees and pensioners informed of what is happening within the organisation. 'Dignity Express' enables the Company's Directors and employees to share objectives, best practice and news in a cost effective manner. News, useful information and background on the company is also available to staff via a dedicated employee website.

Through Dignity's internal communications, and additionally via formal and informal meetings, all of the Group's employees are invited to share best practice initiatives with their colleagues and submit ideas for consideration to improve client service.

Health and Safety

Effective health and safety management is critical to Dignity and a key priority of the Directors. Its operations are conducted at all times in such a way as to ensure, as far as is reasonably practical, the health, safety and welfare of all our employees and all persons who may be attending our premises.

Dignity has a full-time Health and Safety Manager who is dedicated to these issues and is supported by a Health and Safety Officer.

Regional Health and Safety Officers operate in each of the geographical funeral trading areas. Dignity's crematoria and manufacturing facility also have their own manager with responsibility for Health and Safety. All of these managers and officers have qualifications from the National Examination Board in Occupational Safety and Health (NEBOSH) qualified or are scheduled to take these examinations.

Dignity has 13 managers with qualifications from NEBOSH. Within this group there are also three that possess the NEBOSH Fire Certificate with another nine employees sitting the exam in March 2011.

Dignity also has 71 managers or officers that have successfully completed the Institution of Occupational Safety and Health (IOSH) course with a further 24 identified as requiring this training in 2011.



Minimising our health and safety risks

Dignity is committed to the prevention of accidents. Procedures and training are regularly reviewed and updated to ensure that staff minimise any risks associated with their role.

200

There are 200 health and safety co-ordinators embedded across the business.

185

185 members of staff have now completed a health and safety course.

6.7%

We have seen a 6.7 per cent reduction in the number of accidents reported per 1,000 employees.

Left: Ewan Henderson, Dignity's Health and Safety Manager, during a visit to Rotherham Crematorium.

There are also 101 employees that have completed the Chartered Institute of Environmental Health (CIEH) Working Safely one-day course with another 62 identified as requiring this training in 2011.

Effective health and safety management

Health and safety performance is measured in two ways.

- **Proactive monitoring**
Health and safety is proactively monitored via quarterly return analysis, premises inspections, health surveillance, line manager observations of how tasks are performed and regular reports to the Board of Directors.
- **Reactive monitoring**
Investigating accidents, collation and analysis of statistics and ill-health investigation reactively monitors health and safety.

Training programmes and initiatives

To achieve the NEBOSH qualifications, employees had to study current legislation and best practice over a year-long course and successfully complete a written two-hour examination plus a two hour practical assessment.

18 employees have also received Fire Marshall training.

Over 630 Dignity employees attended the Manual Handling training course during 2010. This course is intended to reduce the number of injuries incurred by our operatives.

Environment

Maintaining the quality of the environment in which we all live is an important concern for Dignity and all areas of the business operate in accordance with the Group's environmental policy. We recognise the impact of our operations on local surroundings and our aim is to reduce this and operate in an environmentally friendly manner.

Our business continues to have a low environmental impact and its activities are not expected to give rise to any significant environmental risk over the next twelve months.

Dignity and its employees undertake to act whenever necessary to meet or exceed the standards of current environmental legislation and we continue to review the policies, systems and services to this end. All waste generated is properly disposed of in accordance with current legislation and steps are taken to recycle waste wherever this is practical.

Minimising our impact on the local environment

Dignity is investing approximately £7 million in its crematoria to conform to the government directive to reduce mercury emissions from crematoria by 50 per cent before the end of 2012.

Specialist technology has been installed at Randalls Park, Rotherham, Exeter & Devon, Charnock Richard and Surrey & Sussex Crematoria. During construction the same technology was installed at Dignity's new crematoria in Cambridgeshire. During construction the same technology was installed at Wear Valley, Three Counties and Sherwood Forest Crematoria.



Making progress and meeting targets

We recognise the impact of our operations on local surroundings and our aim is to reduce this and operate in an environmentally friendly manner.

£7 million

Dignity is investing £7 million in its crematoria to conform to government legislation to reduce mercury emissions from crematoria by 50 per cent.

5,800

Approximately 5,800 of the cremations performed by Dignity in 2010 were mercury abated.

9 crematoria

9 Dignity crematoria now have mercury abatement equipment installed.

Left: Georgina Bembridge, Crematorium Manager, and Amelia Hodgetts, Crematorium Operative, discuss the mercury abatement equipment installed at Rotherham Crematorium.

Corporate and social responsibility continued

Due to this investment approximately 5,800 cremations at Dignity crematoria were mercury abated in the past 12 months.

The installation of this new equipment has been managed so as to ensure there is no disruption to our usual services at the crematoria.

Following the successful installation of a water harvesting system at Surrey & Sussex Crematorium last year it was decided to extend this environmental initiative to the development of the new Wyre Forest Crematorium near Kidderminster and Mendip Crematorium in Shepton Mallet.

The system allows water to be extracted from the land drainage network at times when the water table is high and stored for times of need, such as the summer. This enables the crematorium to save water plus maintain a watering regime that keeps the Gardens of Remembrance looking green and attractive throughout the year.

As with the mercury abatement projects, the sensitivity of the locations requires that all work is completed with deference to existing interment plots and families of the deceased.

Reducing our carbon footprint

As in 2009, Dignity once again submitted its data to the Carbon Disclosure Project in 2010. This is a not-for-profit organisation that aims to improve the environment by measuring disclosures from thousands of organisations across the world's major economies and Dignity aims to reduce its future carbon footprint.



Reducing energy consumption

Following a successful test during 2010, there are plans to install a further 200 smart meters at Dignity premises in 2011 to help reduce energy consumption.

Submission to Carbon Disclosure Project

	2009	2008	2007	2006
Scope 1	15,005	15,875	16,048	15,992
Scope 2	8,366	10,923	10,633	10,351
Total	23,371	26,798	26,681	26,343

All figures are metric tonnes of CO₂ equivalent. Dignity does not make any scope 3 disclosures.

In February 2010 Dignity launched a new website specifically for the crematoria and cemeteries it operates. It features a profile of each crematorium that includes information on public transport links to individual locations, with an aim to reduce the carbon footprint.

Waste and recycling

At Dignity's new Head Office in Sutton Coldfield there are facilities for recycling paper, cardboard and cans.

Sustainable sources

All raw materials used in the manufacture of our coffins are sourced from well-managed and sustainable sources. 91 per cent of the coffins required by Dignity's businesses are now manufactured from Forest Stewardship Council (FSC) accredited timber at the Group's facility in East Yorkshire.

Reducing energy consumption

During 2010 a successful test was conducted with smart meters being installed at 20 premises owned by Dignity. We have committed to further reducing our energy consumption by ordering another 200 smart meters and these will be installed during 2011.

Reducing our environmental impact

All raw materials used in the manufacture of our coffins are sourced from well-managed and sustainable sources.

91%

91 per cent of the coffins required by Dignity businesses are now made from FSC accredited timber.

Left: Nigel Banks, Logistics Operative, and Robert Ireland, Stores Supervisor, at Dignity's manufacturing facility in Yorkshire inspect timber for the FSC kite mark.



New crematoria and cemeteries website

Dignity's crematoria and cemeteries website features a profile page that provides details of public transport links to each of our sites. The website provides added value to our clients, their families and friends and the communities we serve by including location maps and a route finder tool to help make their journey to our crematorium as easy as possible. www.dignityfunerals.co.uk/crematoria

In our communities

Everyone within Dignity is committed to not only making a real difference to our clients but also to improving the welfare of all who live within the communities we serve. To demonstrate our values and principles our staff support hundreds of local initiatives, good causes, clubs and events every year. By listening to and understanding the needs of local communities our staff are able to respond by providing help where it is most needed.

For example many of Dignity's funeral locations, including those in London, Birmingham, the West Midlands, Bristol, Leeds, Hartlepool and Northern Ireland held memorial services to bring comfort and solace to those that have lost a loved one during the past year.

Services of Remembrance were held at Rotherham Crematorium on Armistice Day and the 65th Anniversary of the D-Day landings to honour and pay respect to those that sacrificed their lives protecting this country and its interests. Both events were well attended by the Royal British Legion, the Veteran's Association and local residents. Dignity's funeral location on the Isle of Sheppey, G Hogben & Son, also provided a limousine and chauffeur to two veterans of the Burma Campaign so that they could attend the 65th Anniversary of VJ Day at the Cenotaph in London. The heroes of our armed services were also commemorated in November with window dressings and numerous poppy appeals at branches to raise much-needed funds for the Royal British Legion.

Once again kind-hearted Dignity employees from across the UK took part in the Easter Egg Challenge and collected 1,500 chocolate gifts and soft toys to distribute to those less fortunate. Beneficiaries included children's wards at

local hospitals, women's refuges, special needs centres, children's hospices and Mencap. Staff at W Kaye & Sons in Leeds also raised £400 last Easter by knitting and selling "egg characters". The egg decorations in football and rugby colours proved particularly popular and the donations were given to the children and teenager cancer wards of their local hospital.

During the past year Dignity has continued to support grass roots football by providing training equipment and kit to many youth football teams across the UK. In 2010 Dignity has also continued its tradition of providing financial support to bowling clubs and has sponsored a number of tournaments and events. Both of these initiatives provide different sectors of the local community with a focal point for socialising and healthy exercise and in many cases these clubs may struggle to exist without our help.

Dignity's support for the communities it serves was wonderfully illustrated last summer when staff from the East Midlands area and some of their business partners spent a weekend transforming an unused piece of land at a primary school into a garden and wildlife area. This initiative formed part of an 'eco-week' for the children and provides regular gardening lessons for the pupils.



Making a positive difference in the communities we serve

We believe in encouraging staff to communicate regularly with clubs, social groups, charities and civic and religious leaders so that we understand their needs and are able to give something back to the community.

Left: Funeral Directors, Diane Smith of F W Collins & Son in Bilston and Inderjeet Matharu of Asian Funeral Directors in Birmingham discuss the needs of their local communities with local religious leader, Dharm Dutt Vasistha, Head Minister at Shri Geeta Bhawan, Birmingham.

Corporate and social responsibility continued



Our corporate charity

Children's Hospices UK is Dignity's corporate charity for 2010 and 2011. They care for approximately 20,000 children each year and the charity supports and give a national voice to 41 hospices in the UK. In 2010 Dignity raised £60,000 for this worthwhile cause.

Supporting charities

In 2010, Dignity employees and clients continued to raise funds for the staff elected charity – Children's Hospices UK. This worthy cause is the national charity that gives voice and support to 41 children's hospices and provides care for approximately 20,000 children each year. All Dignity funeral locations and crematoria have been linked with a local children's hospice and during the year a total of £60,000 was raised.

There were many fund raising initiatives held nationwide during the year including tea parties, car washes, sponsored walks and golf tournaments. Some of Dignity's athletic employees chose to raise funds by taking part in sponsored cycling events and marathons.

Amongst the more imaginative events organised by employees was a sponsored walk that raised £1,470 by visiting each of the 11 Dignity branches in South East London, a distance of 26 miles. Staff from Yorkshire took part in the 'Faster Than Light Cycle Challenge'. This novel event saw participants cycling from Pluto to the Sun and back again with the planets positioned on the 13 mile route at a scale of 575,872,239 to 1. The result is that the fundraisers are moving at approximately 10 times the speed of light at this scale. Employees from Aldershot, Southampton and Burnley also raised funds for our corporate charity by taking part in a parachuting and skydiving event in September called The Big Jump!

The Directors and senior managers also supported Dignity's corporate charity. Operations Director, Andrew Davies and friends, raised £2,000 for Ty Hafan Children's Hospice by cycling the 55 miles between Brecon and Cardiff Bay, a route known as the Taff Trail. Anthony Driver, Regional Manager for South London and Northern Ireland also took

part in the charity's Big Boss Ride and raised over £1,900. This was a two-day challenge where directors and executives from companies that support Children's Hospices UK cycled from the oldest hospice in Oxford to the newest in South East London.

Our five charity fairground organs continued to be a vital aid in fund raising activities and in 2010 almost £78,000 were raised for a variety of national and local charities.

Dignity employees also supported a number of cancer charities including Macmillan, Cancer Research UK, Marie Curie, The Big C and The Pink Ribbon Ball. For example, Shirley Roberts and Jennifer Yardley, two senior managers from our crematoria team raised £2,500 for Cancer Research UK by completing their debut marathon whilst Karen Russell, a funeral service arranger based at Peter Wilson & Sons in Ayr raised £12,000 for a local breast cancer charity by organising a charity ball.



Supporting local initiatives and good causes

We are committed to improving the welfare of all who live in the communities we serve and our staff support hundreds of local initiatives every year.

Left: Dignity's Area Manager, Barry McBratney (left) with staff and pupils from St. Malachy's Primary School in Northern Ireland. Our funeral location, Russells of Bangor held a Mother's Day Competition to help pupils say "Thank you" to their mums.



A Service of Remembrance was organised by Rotherham Crematorium on the 65th anniversary of the D-Day Landings.



Shirley Roberts and Jennifer Yardley, two senior managers from Dignity Group's crematoria team, raised £2,500 for Cancer Research UK by completing a marathon.



Each year our staff help to raise thousands of pounds for Macmillan Cancer Care as part of the World's Biggest Coffee Morning initiative.

DOCUMENT WALLET

Community & Fundraising Events 2010



Staff from F W Collins, Bilston took a Dignity charity organ to the Bilston in Bloom event and raised over £150 for Compton Hospice.



Jacqui Hammond, Support Service Manager and her daughter Rachel Aves, Memorial Administrator of E Finch & Sons, Aldershot raised over £1,000 skydiving for Children's Hospices UK.

Community Support
Dignity sponsors and provides financial support to a number of bowling clubs and youth football teams across the UK.

£77,635
Dignity's five fairground organs raised £77,635 in the past 12 months for a variety of local charities and good causes.



Dignity branch, Thomas J Thomas & Sons in Ebbw Vale, are now sponsoring Glyncoed under 14's football team by providing them with shower proof training jackets.



Making a difference to the local communities we serve is at the heart of everything we do. Dignity staff raise thousands of pounds each year for national and local charities.

Financial review

“The Group returned £63.9 million to Shareholders following a successful issue of Secured Notes.”



Steve Whittern, Finance Director

Financial highlights

The Group's financial performance is summarised below:

	2010	2009	Increase %
Revenue (£million)	199.1	184.7	8
Underlying operating profit* (£million)	61.0	56.4	8
Underlying profit before tax* (£million)	40.4	36.4	11
Underlying earnings per share* (pence)	46.4	40.5	15
Cash generated from operations (£million)	74.5	65.3	14
Operating profit (£million)	60.4	57.5	5
Profit before tax (£million)	39.8	37.5	6
Basic earnings per share (pence)	46.9	41.8	12
Dividends paid in the period:			
Interim dividend (pence)	-	4.03	n/a
Final dividend (pence)	8.07	7.34	10

*Underlying amounts exclude profit on sale of fixed assets, transaction costs and exceptional items.

The Board has proposed a dividend of 8.88 pence per Ordinary Share as a final distribution of profits relating to 2010 to be paid on 24 June 2011.

Underlying profit after tax

The Board believes that, whilst statutory reporting measures provide a useful indication of the financial performance of the Group, additional insight is gained by excluding certain non-recurring or non-trading transactions. Accordingly, the following information is presented to aid understanding of the performance of the Group:

	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Operating profit for the period as reported	60.4	57.5
Deduct the effects of:		
Profit on sale of fixed assets	(0.5)	(1.1)
Transaction costs	1.1	-
Underlying operating profit	61.0	56.4
Net finance costs	(20.6)	(20.0)
Underlying profit before tax	40.4	36.4
Tax charge on underlying profit before tax	(11.7)	(10.6)
Underlying profit after tax	28.7	25.8
Weighted average number of Ordinary Shares in issue during the period (million)	61.8	63.7
Underlying EPS (pence)	46.4p	40.5p
Increase in underlying EPS (per cent)	15%	6%

Earnings per share

The Group's earnings were £29.0 million (2009: £26.6 million). Basic earnings per share were 46.9 pence per share (2009: 41.8 pence per share).

The Group's measures of underlying performance exclude the effect (after tax) of the profit on sale of fixed assets, transaction costs and exceptional items. Consequently, underlying profit after tax was £28.7 million (2009: £25.8 million), giving underlying earnings per share of 46.4 pence per share (2009: 40.5 pence per share), an increase of 15 per cent.

The issue of further Secured Notes and subsequent Return of Value had a negligible impact on earnings per share. This is because of the timing of the transaction. The full benefit of the transaction will be witnessed in the Group's 2011 results and beyond when the reduction in the number of shares in issue is expected to enhance earnings per share.

Cash flow and cash balances

Cash generated from operations was £74.5 million (2009: £65.3 million). This increase year on year reflects the Group's increase in operating profits together with a later cut off than the previous year which has resulted in £4.4 million of positive working capital movements.

Capital expenditure increased year on year, with £27.9 million (2009: £17.2 million) being spent on the purchase of property, plant and equipment.

This is analysed as:

	31 December 2010 £m	25 December 2009 £m
Vehicle replacement programme and improvements to locations	10.3	8.0
Branch relocations	0.6	1.3
Satellite locations	1.0	-
Development of new crematoria	13.9	6.2
Mercury abatement project	2.1	1.7
Total property, plant and equipment	27.9	17.2
Partly funded by:		
Disposal proceeds	(1.1)	(2.1)
Crematoria Acquisition Facility	-	(2.6)
Net capital expenditure	26.8	12.5

In addition, the Group spent £5.8 million on acquisitions of six funeral locations.

+8%

Underlying operating profits have increased 8 per cent to £61.0 million.

+15%

Underlying earnings per share increased 15 per cent to 46.4 pence per share.

+14%

Cash generated from operations has increased 14 per cent to £74.5 million.

Capital expenditure on mercury abatement represents the monies incurred to comply with new legislation. The total spent to date is £3.8 million and the total anticipated capital expenditure is approximately £7 million. The project will be completed by the end of 2012.

The Group also paid dividends on Ordinary Shares totalling £5.1 million (2009: £7.2 million) in the period.

Cash balances at the end of the period were £48.1 million (2009: £45.8 million).

£1.5 million (2009: £1.5 million) represents amounts received as Recoveries from the pre-arranged funeral plan trusts. These amounts are legally required, under the terms of the Group's securitisation, to be retained in a separate bank account for one year following receipt and do not therefore meet the definition of cash for cash flow reporting purposes.

Approximately £24.7 million of the remaining cash balance was immediately available for acquisitions and developments and approximately £18.7 million was set aside for future corporation tax and dividend payments.

Further details and analysis of the Group's cash balances are included in note 15 to the consolidated financial statements.

Pensions

The balance sheet shows a surplus of £8.5 million before deferred tax (2009: £9.1 million). This includes a one off contribution from the Group of £1 million from the proceeds of the issue of further Secured Notes.

The scheme remains open to both new and existing members of staff.

Taxation

The Group's effective tax rate in the period was 29 per cent (excluding the exceptional rate change) (2009: 29 per cent). Following the Government's announcement to reduce the rate of Corporation Tax in future years, the Group expects its effective rate in 2011 to be approximately 28.5 per cent.

The Group's consolidated income statement includes exceptional income of £0.7 million which reflects the reduction in the headline Corporation Tax Rate to 27 per cent. The Group expects similar exceptional credits in future years as and when each reduction is substantively enacted.

Capital structure and financing

Secured Notes

The Group's principal source of long term debt financing is the Class A and B Secured Notes, rated A and BBB respectively.

The Board considers that maintaining a leveraged balance sheet is appropriate for the Group, given the highly stable and predictable nature of its cash flows. This predictability is matched in the Secured Notes. The principal and interest on the Secured Notes amortise fully over their life and are completely repaid by 2031. The interest rate is fixed for the life of the Secured Notes and interest is calculated on the outstanding principal.

This has the benefit of enhancing shareholder returns, whilst leaving sufficient flexibility to invest in the growth of the business.

During the period, the Group issued further Class A and B Secured Notes with a nominal value outstanding of £38.9 million and £33.1 million respectively. These Notes were issued at a premium and raised a total of £81.8 million after fees and expenses.

The Board believes that this fund raising, which equated to a pre tax cost of debt of approximately 4.9 per cent and subsequent Return of Value described later, is consistent with the Group's strategy of operating an efficient balance sheet to enhance total shareholder returns, as it has enabled the Group to replace some expensive equity with cheaper debt that also attracts a tax deduction.

The Group's primary financial covenant under the Secured Notes requires EBITDA to total debt service to be above 1.5 times. The ratio at 31 December 2010 was 2.56 times (2009: 2.60 times). Further details may be found in note 24.

Crematoria Acquisition Facility

The Group is also fully drawn on a £10 million Crematoria Acquisition Facility, which was used to fund the acquisition of five crematoria locations in the last quarter of 2008.

The principal on this facility is repayable in one amount in November 2013 and interest is either fixed or capped at approximately 5.6 per cent. All interest is payable in cash on a quarterly basis.

Financial review continued

£63.9 million

The Group returned £63.9 million to shareholders in October 2010, equating to £1 per Ordinary Share.

£24.7 million

The Group has set aside approximately £24.7 million for acquisitions and developments.

Net debt

As set out in note 24, the Group's gross debt outstanding was £359.1 million (2009: £283.2 million). Net debt was £311.1 million (2009: £247.1 million), including the premia on the Secured Notes. This change reflects an increase in debt of £84.7 million resulting from the issue of further Secured Notes which has been mitigated by strong cash generation and repayments of principal on the Secured Notes.

Net finance costs

The Group's finance expense substantially consists of the interest on the Class A and B Secured Notes and ancillary instruments. The net finance cost in the period relating to these instruments was £20.3 million (2009: £19.6 million).

Interest costs of £0.5 million (2009: £0.4 million) were incurred in respect of the Crematoria Acquisition Facility.

Other ongoing finance costs incurred in the period amounted to £0.6 million (2009: £0.8 million), including the unwinding of discounts on the Group's provisions, other financial liabilities and interest capitalised in accordance with IAS 23.

Interest receivable on bank deposits was £0.4 million (2009: £0.5 million). Net finance income of £0.4 million (2009: £0.3 million) was recognised in respect of the Group's pension scheme in accordance with IAS 19.

Return of Value and share consolidation

As planned, the Group returned £63.9 million to shareholders in October 2010 using the majority of the proceeds of the issue of further Secured Notes. Shareholders were given the choice to receive either capital or income return, but in each case received £1 per Ordinary Share.

In addition, following approval by shareholders, the Ordinary Share Capital of the Company was consolidated on a six for seven basis in order to maintain the comparability of financial indicators such as share price and earnings per share.

Combined with the Return of Value, the effect was the same as buying back 9.1 million shares at a market price of approximately £7.00 per share.

Key performance indicators

The Group uses a number of performance indicators to both manage the business and ensure that the Group's strategy and objectives are being delivered.

	53 week period ended 31 December 2010	52 week period ended 25 December 2009
Total estimated number of deaths in Britain (number)	557,000	545,000
Number of funerals performed (number)	64,500	65,000
Funeral market share excluding Northern Ireland (per cent)	11.4	11.8
Number of cremations performed (number)	45,200	42,700
Crematoria market share (per cent)	8.1	7.8
Unfulfilled pre-arranged funeral plans (number)	238,000	216,000
Underlying earnings per share (pence)	46.4	40.5
Underlying operating profit (£million)	61.0	56.4
Cash generated from operations (£million)	74.5	65.3

These key performance indicators are produced using information supplied by ONS and company data.

In addition to these key performance indicators, the Group closely monitors the results of its client surveys. Highlights of these results for 2010 can be found in the Business Review.

A summary of the Group's financial record for the last five years can be found on pages 89 and 90.

Forward-looking statements

Certain statements in this Annual Report are forward-looking. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Principal risks and uncertainties

Our risk process is designed to identify, evaluate and manage our operational and financial risks.

Operational risk management

Significant reduction in the death rate

There is a risk that the number of deaths in any year significantly reduces. This would have a direct result on the financial performance of both the funerals and crematoria divisions.

However, the profile of deaths has historically followed a similar profile to that predicted by the ONS, giving the Group the ability to plan its business accordingly.

Nationwide adverse publicity

Nationwide adverse publicity could result in a significant reduction in the number of funerals or cremations performed in any financial period. This would have a direct result on the financial performance of that division.

However, this risk is addressed by ensuring appropriate policies and procedures are in place, which are designed to ensure client service excellence. These policies and procedures retain flexibility for the business to serve families in accordance with local traditions.

Ability to increase average revenues per funeral or cremation

Operating profit growth is in part attributable to the Group's ability to increase the average revenue per funeral or cremation. There can be no guarantee that future average revenues per funeral or cremation will increase at rates similar to previous periods.

However, the Group believes that its focus on client service excellence helps to mitigate this risk.

Significant reduction in market share

It is possible that other external factors, such as new competitors, could result in a significant reduction in market share within funeral or crematoria operations. This would have a direct result on the financial performance of that division.

However, the Group believes that this risk is mitigated for funeral operations by reputation and recommendation being a key driver to the choice of funeral director being used and for crematoria operations is mitigated by difficulties associated with building new crematoria.

Demographic shifts in population

There can be no assurance that demographic shifts in population will not lead to a reduced demand for funeral services in areas where Dignity operates. In such situations, Dignity would seek to follow the population shift.

Competition

The UK funeral services market and crematoria market is currently very fragmented.

There can be no assurance that there will not be further consolidation in the industry or that increased competition in the industry, whether in the form of intensified price competition, service competition, over capacity or otherwise, would not lead to an erosion of the Group's market share, average revenues or costs of funerals and consequently a reduction in its profitability.

However, there are barriers to entry in the funerals services market due to the importance of established local reputation and to the crematoria market due to the need to obtain planning approval for new crematoria and the cost of developing new crematoria.

Financial risk management

An assessment of the Group's exposure to financial risks and a description of how these risks are managed are included in note 2 to the consolidated financial statements.

The Group manages the operational and financial risks described through a combination of regular Board reports and also monthly and weekly management information that is reviewed by the Executive Directors.

Financial Covenant under the Secured Notes

The Group's Secured Notes requires EBITDA to total debt service to be above 1.5 times. If this financial covenant is not achieved, then this may lead to an Event of Default under the terms of the Secured Notes, which could result in the Security Trustee taking control of the securitisation group on behalf of the Secured Noteholders.

In addition, the Group is required to achieve a more stringent ratio of 1.85 times for the same test in order to be permitted to transfer excess cash from the securitisation group to Dignity plc. If this stricter test is not achieved, then the Group's ability to pay dividends would be impacted. However, in order to issue the further Secured Notes, the Group certified based on independent advice, that the stricter condition was expected to be met for at least the first year after the issue of further Secured Notes.

Board of Directors



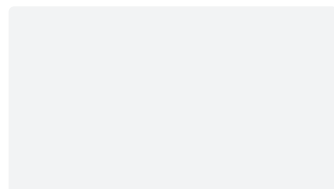
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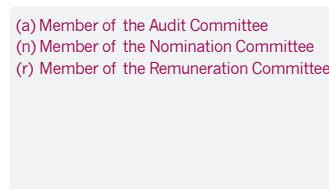
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(a) Member of the Audit Committee
(n) Member of the Nomination Committee
(r) Member of the Remuneration Committee



6



7



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9

1. Peter Hindley (67)⁽ⁿ⁾ (Non-Executive Chairman)

Peter has extensive experience of the industry having been appointed Chief Executive of Plantsbrook Group plc in 1991. Following the acquisition of Plantsbrook Group plc and Great Southern Group plc by SCI in 1994, he was appointed CEO of SCI (UK). He subsequently led a management buy out of the Group from SCI in 2002. The Company was then floated on the Stock Exchange in 2004. Peter became Non-Executive Chairman in January 2009. Before entering the funeral service industry, Peter spent 25 years in retailing, holding senior positions in Debenhams, Burtons and Harris Queensway.

2. Mike McCollum (43) (Chief Executive)

Mike joined Dignity's former parent, SCI, in 1995 from KPMG Corporate Finance in London. He was appointed Finance Director at the end of 2001 and became Chief Executive at the beginning of 2009. He has a law degree from Birmingham University (LL.B), is a solicitor and also holds an MBA from Warwick University.

3. Steve Whittern (36) (Finance Director)

Steve joined the Group in 1999 from KPMG. He was appointed Finance Director at the beginning of 2009, having spent the previous two years as Financial Controller, being responsible for the Group's finance function. Steve led the further debt issue and Return of Value in 2010. Steve is an FCA and holds a mathematics degree from Warwick University.

4. Andrew Davies (49) (Operations Director)

Andrew joined his family owned business in 1979 and worked as a funeral director and embalmer until the business was sold to Great Southern Group in 1993. He then held various management positions within Great Southern Group and following the acquisition by SCI in 1994, held senior operational positions within SCI (UK). He became Operations Director in 2001 and was a member of the management buy out team in 2002.

5. Richard Portman (49) (Corporate Services Director)

Richard joined SCI from HSBC as Chief Accountant in 1999. In 2001 he was appointed Head of Finance and was responsible for the running of Dignity's finance department. Richard was part of the team that took Dignity through the management buy out in 2002, the whole business securitisation in 2003 and the IPO in 2004. Following the IPO Richard was appointed as Company Secretary and became Corporate Services Director in 2006. Richard is an FCA, holds a geography degree from Birmingham University and is a Member of the Chartered Management Institute and of the Investor Relations Society.

6. James Newman (61)^{(a)(n)(r)} (Senior Independent Director)

James has a portfolio of non-executive directorships in both the private and public sectors. He is currently Chairman of Straight plc and Brulines Group plc and senior Non Executive Director of Bglobal plc. He is also Chairman of Finance Yorkshire, Deputy Chairman of the Governors of Sheffield Hallam University and has just been appointed the first Chairman of the Sheffield City Region Local Enterprise Partnership Board. He was formerly Deputy Chief Executive and Finance Director of Kelda Group plc and a number of other public companies. He has also been Chairman of Waste Recycling and a Non-Executive Director of Scott Wilson Group plc and Richmond Foods plc, before their respective takeovers. James is a Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Association of Corporate Treasurers.

7. Bill Forrester (70)^{(a)(n)(r)} (Non-Executive Director)

Bill is the Chairman of Nuair Group Ltd and a Director of Brittpac Limited. Prior to this he was Group Chief Executive of SIG plc, Europe's largest distributor of insulation, ceiling, partitioning and roofing products and Chairman of John Laing plc, the infrastructure investment group. He was also the Managing Director at Kuwait Insulation Manufacturing Company and the Sales and Marketing Director at BP Rockwool Limited.

8. Ishbel Macpherson (50)^{(a)(n)(r)} (Non-Executive Director)

Ishbel was appointed to the Board on 12 January 2009. Ishbel is a Non-Executive Director of GAME Group plc and May Gurney Integrated Services plc, Senior Independent Director of Hydrogen Group plc and Chairman of Speedy Hire plc. Prior to those roles she held senior positions with Barclays de Zoete Wedd, Hoare Govett and Dresdner Kleinwort Wasserstein.

9. Alan McWalter (57)^{(a)(n)(r)} (Non-Executive Director)

Alan was appointed to the Board on 12 January 2009. Alan is a Non-Executive Director of Churchill China plc, Haygarth Group Ltd, Fabris Lane Ltd and is Non-Executive Chairman of Constantine Group plc and Kornicis Group Ltd. Prior to these roles Alan was Marketing Director of Marks and Spencer plc and prior to that held senior positions with Kingfisher plc and Thomson Consumer Electronics.

Directors' report

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 53 week period ended 31 December 2010.

The company registration number of Dignity plc is 4569346.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Report on Directors' Remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Report on Directors' Remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's websites and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on page 26 of the Annual Report, confirm that, to the best of each person's knowledge and belief:

- The Group and parent Company financial statements, prepared in accordance with IFRSs as adopted by the EU and UK GAAP respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

Principal activities and business review

The principal activity of the Group is the provision of funeral services including funeral directing, crematoria operation and the marketing and administration of pre-arranged funeral plans. The principal activity of the Company is that of a holding company.

The principal activities and key performance indicators of the Group are also described on pages 22 to 24 of the Financial Review. A review of the development of the business in 2010, events affecting the Group since the end of the financial year and likely future developments are referred to in the Business Review, which is incorporated into this Directors' Report by reference.

The review of business activities in the Business Review, Financial Review and the Directors' Statement of Corporate Governance are in line with the requirements of the Companies Act 2006.

Principal risks and uncertainties

Operational risks are considered on page 25.

An assessment of the Group's exposure to financial risks and a description of how these risks are managed are included in note 2 to the consolidated financial statements.

Capital reorganisation

On 27 September 2010, Dignity Finance PLC, a subsidiary of the Group, issued £48.7 million Class A Secured 6.31 per cent Notes due 2023 and £33.1 million Class B Secured 8.151 per cent Notes due 2031. This raised a total of £81.8 million after expenses. The Company returned £63.9 million (£1 per Ordinary Share) to shareholders through the issue and redemption of a class of one B or C Share for each existing Ordinary Share. This was approved at an Extraordinary General Meeting of the Company on 8 October 2010. The Company also completed at the same time a consolidation of its share capital on the basis of six new Ordinary Shares of 10.5 pence for every seven old shares of 9 pence each.

Directors' report continued

Share capital

During the period, the Group issued 143,974 Ordinary Shares of 9 pence each. 143,713 Shares of 9 pence each were issued to satisfy Long Term Incentive Plan share awards vesting in the period and 261 shares were issued to satisfy options exercised under the Save As You Earn Scheme. The Long Term Incentive Plan awards were made in 2007 and the SAYE options were granted in 2007.

Following the share consolidation referred to above, the issued share capital of Dignity plc at 31 December 2010 consisted of 54,757,002 Ordinary Shares of 10.5 pence each. All the Ordinary Shares carry the same rights and obligations. There are no other class or type of voting share in issue. Subsequent to the share consolidation a further 1,322 shares were issued to satisfy options exercised under the Save As You Earn Scheme. These options were granted in 2007.

A special resolution passed at the last Annual General Meeting on 4 June 2010 gives Dignity plc the authority to purchase up to 3,194,068 Ordinary Shares of 9 pence each at not less than nominal value and not more than 5 per cent above the average middle market quotation for the preceding 5 business days. At the same meeting the Company was also given authority to allot Ordinary Shares up to an aggregate nominal value of £1,916,441 of which up to £287,466 may be for cash. These authorities will expire at the conclusion of the next Annual General Meeting on 9 June 2011. It is the intention of the Directors to seek renewal of these authorities at that Annual General Meeting.

Results

The results for the period are set out in the Consolidated Income Statement on page 43. Group profit before tax amounted to £39.8 million (2009: £37.5 million).

Dividends

The planned interim dividend of 4.43 pence per share which was due to be paid on 29 October 2010 was declared but cancelled following the decision to return capital to shareholders. The Board has proposed a final dividend of 8.88 pence per share, which, subject to approval at the Annual General Meeting, will be paid on 24 June 2011 to shareholders on the register at close of business on 27 May 2011.

Payments policy

The Group has no formal code or standard that deals specifically with the payment of suppliers. However, the Group's policy on the payment of all creditors is to ensure that the terms of payment as specified by, and agreed with, the supplier are not exceeded, provided all trading terms and conditions have been complied with. The average creditor payment period for the Group was 32 days (2009: 25 days). The Company has no trade creditors.

Key contractual arrangements

The Directors consider there to be one key contractual arrangement in relation to the supply and maintenance of cremators. This company is responsible for supplying

and installing the cremator abatement equipment. If this company ceased to trade, the Group may have difficulties in installing the necessary equipment by the end of 2012.

Employment policies

During the period the Group has maintained its obligations to develop and improve arrangements aimed at involving employees in its affairs. Methods of communication used include an in-house newsletter, an employee website, bulletins and management briefings. This is discussed in more detail in the Corporate and Social Responsibility Report on pages 12 to 21.

Employment policies are designed to provide equal opportunities irrespective of age, sexuality, colour, ethnic or national origin, religion, nationality, sex or marital status. Full consideration is given to the employment, training and career development of disabled persons, subject only to their aptitudes and abilities. The Group endeavour, as far as practicable, to treat disabled persons equally with others and will also endeavour to help and accommodate persons who become disabled whilst working for Dignity.

Directors and their interests

Details of the Directors of the Company who were in office during the period and up to the date of signing the financial statements are shown in the Report on Directors' Remuneration on page 33. In accordance with the Articles of Association and the UK Corporate Governance Code (2010 Code), at the Annual General Meeting, all Directors will retire as Directors of the Company and, being eligible, offer themselves for re-election at the Annual General Meeting on 9 June 2011.

During the period, the Company maintained liability insurance for its Directors and Officers. The Directors of each of the Company's subsidiaries, have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006, was in force throughout the period and is currently in force.

Substantial shareholdings

As at 7 March 2011, the Company had been notified of the following interests of 3 per cent or more of the issued share capital:

Holder	Number of Ordinary Shares	% of issued share capital
Franklin Templeton Institutional	5,428,056	9.91%
Tiger Global Management LLC	3,640,829	6.65%
Standard Life Investments	2,704,738	4.94%
Baillie Gifford and Co	2,688,153	4.91%
BlackRock Inc	2,670,275	4.88%
BAM & Oppenheimer Funds	2,366,066	4.32%
Montanaro Group	2,190,334	4.00%
Legal and General Group plc	2,182,083	3.99%
UBS Global Asset Management Ltd	1,864,533	3.41%

The Takeover Directive

The Group has one class of voting share capital, Ordinary Shares. All of the shares rank *pari passu*. There are no special control rights in relation to the Group's shares. The rules governing the appointment and replacement of Board members and changes to the Articles of Association accord with usual English company law provisions. The Board has authority to purchase its own shares and is seeking renewal of that power at the forthcoming Annual General Meeting within the limits set out in the notice of that meeting. There are no significant agreements to which the Group is party which take effect, alter or terminate in the event of change of control of the Group.

Health and safety policy

The Group's operations are designed at all times in such a way as to ensure, so far as reasonably practical, the health, safety and welfare of all of our employees and all other persons who may be attending our premises. This is discussed in the Corporate and Social Responsibility Report on pages 12 to 21.

Corporate Social Responsibility

Maintaining the quality of the environment in which we all live is an important concern for the Group. This is discussed in the Corporate and Social Responsibility Report on pages 12 to 21 alongside other social and ethical considerations.

Donations

The Group made charitable donations amounting to £0.1 million (2009: £0.1 million) during the period. There were no political donations. Further information can be found on page 20.

Going concern

The Directors receive and review regularly management accounts, cash balances, forecasts and the annual budget together with covenant reporting. After careful consideration, and mindful of the current market conditions, the Directors confirm they are satisfied that the Group has adequate resources to continue operating for the foreseeable future. The Directors formally considered this matter at the Board meeting held on 3 March 2011. For this reason, they continue to adopt the going concern basis for preparing the financial statements.

Post balance sheet events

Please refer to note 32 of the Notes to the Consolidated Financial Statements for further details.

Independent Auditors and disclosure of information to Auditors

A resolution for the reappointment of PricewaterhouseCoopers LLP will be proposed at the forthcoming Annual General Meeting.

In the case of each of the persons who are Directors at the time when the report is approved, the following applies.

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Directors have taken appropriate steps to make themselves aware of any relevant audit information and to establish that the Group's auditors is aware of that information.

Corporate Governance Statement

The information that fulfils the requirements of a corporate governance statement in accordance with rule 7.2 of the Disclosure and Transparency Rules can be found in this Directors' Report and in the Directors' Statement on Corporate Governance on pages 37 to 41, which is incorporated by reference.

By order of the Board

Richard Portman
Company Secretary
10 March 2011

Report on Directors' remuneration

for the 53 week period ended 31 December 2010

This report sets out the remuneration policy operated by the Group in respect of the Executive Directors, together with disclosures on all Directors' remuneration. The auditors are required to report on the 'auditable' part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006.

The Board has reviewed the Group's compliance with the 2008 Combined Code (the Code) on remuneration related matters and has followed the Code in the preparation of the report of the Remuneration Committee. It is the opinion of the Board that the Group complied with all remuneration related aspects of the Code during the period.

Unaudited information

The Remuneration Committee is responsible for developing policy on remuneration for Executive Directors and senior management and for determining specific remuneration packages for each of the Executive Directors.

Bill Forrester chairs the Remuneration Committee and its other members are the independent Non-Executive Directors: James Newman, Ishbel Macpherson and Alan McWalter. The Code requires that a Group of the size of Dignity plc has a Remuneration Committee comprising a minimum of three non-executives. The Remuneration Committee members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

The Chairman and the Chief Executive attend the Remuneration Committee by invitation or when required and the Company Secretary, who is also the Corporate Services Director, attends meetings when required as Secretary to the Remuneration Committee. No Executive Director takes part in discussions relating to their own remuneration and benefits.

The Remuneration Committee is formally constituted with written terms of reference. A copy of the terms of reference is available for inspection on the Group's investor website www.dignityfuneralsplc.co.uk. The Committee met six times during 2010. At those meetings basic salaries of Executive Directors and senior managers were reviewed, the targets and quantum of annual performance related bonuses for Directors were also agreed, as were options granted under the Group's Long Term Incentive Plan (LTIP). The meetings also approved the payment of the 2009 performance related bonus and the vesting of the shares awarded under the LTIP scheme in 2007. A further meeting was also held in March 2011 to approve the payment of the performance related bonus for 2010, LTIP awards and bonus targets for 2011.

In 2008, the Committee retained the external benefit consultants, Hewitt New Bridge Street, to complete a review of the Executive Directors' remuneration. In discussions with the Committee, and in consultation with Hewitt New Bridge Street, it was decided that a 'Comparator Group' would be defined consisting of all companies in the Consumer Goods and Consumer Services Sector of the FTSE 250 filtered to exclude companies deriving more than 50 per cent of their turnover from overseas or having a market capitalisation in excess of £1.4 billion at that time. This gave a group of 32 companies with an average market capitalisation of £628 million at November 2008 as the Comparator Group. At that date Dignity had a market capitalisation of £473 million and an enterprise value (including net debt) of £710 million. The bottom half of the FTSE 250 was also used as a reference point for the benchmarking process. The Committee continue to believe that the use of this Comparator Group is the most appropriate way of reviewing and setting Executive Directors' salaries.

Remuneration policy

The objective of the remuneration policy is to provide remuneration packages to each Executive Director that will:

- Align rewards with the interests of shareholders;
- Motivate and encourage superior performance;
- Allow the Group to retain the talent needed to execute its business strategy; and
- Enable the Group to be competitive when recruiting appropriately skilled and experienced management.

The Remuneration Committee believes that this policy will retain and develop further the Group's entrepreneurial culture, whilst also focusing executive remuneration on performance which the Committee believes will best serve shareholders' interests. It is therefore the aim of the Remuneration Committee to encourage and reward superior performance by Executive Directors with that performance being based on strong financial performance and returns to shareholders. This is achieved by weighting the overall remuneration package towards achievement of that performance. Only 31 per cent of each Executive Directors' total potential remuneration package (ignoring benefits and pension contributions) is accounted for by basic salary, assuming a full annual bonus is achieved and a maximum conditional award under the LTIP is made.

The Remuneration Committee will continue to review all aspects of the policy on an annual basis to ensure that rewards continue to be in line with the Group's objectives and shareholders' interests.

Basic salary

When determining the basic salary of the Executive Directors, the Remuneration Committee takes into consideration:

- The levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity;
- The performance of the individual Executive Director;
- The individual Executive Director's experience and responsibilities; and
- Pay and conditions throughout the Group.

No changes were made to their basic salaries during the period. With the exception of Steve Whittern the salary review for 2011 was set at 2 per cent by the Remuneration Committee. Steve Whittern received a pay review of £54,000 (36 per cent) recognising his increasing experience in the role of Finance Director following his appointment at the start of 2009. Salaries effective from 1 January 2011 are:

Name	2010 £'000	2011 £'000
Mike McCollum	440	449
Andrew Davies	250	255
Richard Portman	200	204
Steve Whittern	150	204
Total	1,040	1,112

Annual performance related bonus

The targets for the year, which are based on the achievement of set earnings per share targets, are reviewed and set annually by the Committee to ensure that they are appropriate to the current market conditions and remain challenging. They are ratified by the full Board. The targets are designed to enhance shareholder value.

The maximum bonus attainable for 2010 by Executive Directors was 100 per cent of basic salary. A bonus of 70 per cent is attainable for meeting the first earnings per share target set by the Committee and a further bonus of 30 per cent may be earned by achieving a second and more demanding earnings per share target. The increase in underlying earnings per share during the period was 15 per cent and the bonus percentage earned by the Executive Directors in the period was 100 per cent.

No other bonuses of any description were paid in the period to Executive Directors.

No changes have been proposed to the Annual Performance Related Bonus for 2011 and there were no departures from this policy in the current period. This will continue to be based on demanding earnings per share targets with a maximum bonus equal to 100 per cent of base salary.

Share incentives

Shareholders approved the current discretionary share incentive plan, the LTIP, on 5 June 2009. If existing LTIPs were to be amended or if there was a new LTIP Scheme, approval would be sought from the shareholders. The Committee is currently reviewing the performance conditions for future LTIP awards.

All Executive Directors and other employees are entitled to be considered for the grant of conditional share awards under the LTIP. Under the rules, the maximum annual award that can be made to an individual is 125 per cent of salary. All four Executive Directors serving at the start of the year, were granted conditional share awards during 2010 equivalent to the maximum award. The Committee deemed this award appropriate, as in previous years, mindful of the need to encourage superior performance from the Executive Directors and ensure that a significant proportion of their total remuneration is linked to the performance of the Group. This award is in addition to those made in 2004 through to 2010. Steve Whittern received awards of 4,000 shares in each of the years in 2007 and 2008, prior to his appointment to the Board on 29 December 2008. Total awards made to the Executive Directors under the scheme are shown on page 35.

Eligible Executives are awarded rights, in the form of nil cost conditional share awards, to acquire a maximum number of shares at the beginning of a three year period, the proportion of which they will be entitled to receive at the end of that period depending on the extent to which the performance conditions set by the Remuneration Committee at the time the allocation is made, are satisfied.

The Remuneration Committee selected comparative Total Shareholder Return (TSR) as the performance condition for LTIP awards as it ensures that the Group outperforms the FTSE 350 Index over the measurement period in delivering shareholder value, before participants are entitled to receive any of their awards. The constituent companies of the FTSE 350 Index, at the time the awards are made, are selected as a benchmark as there are no directly comparable quoted companies in the United Kingdom and as Dignity is a constituent of the FTSE 350 this is a valid benchmark. The Remuneration Committee will calculate the TSR in accordance with the rules of the scheme and ratify the calculation prior to the release of any award. Performance conditions under the LTIP are not subject to re-testing.

Report on Directors' remuneration continued

for the 53 week period ended 31 December 2010

The percentage of the conditional share awards made up to and including the awards in 2009 are exercisable on vesting as follows:

- Ranked in the top quintile: 100 per cent of the total award;
- Ranked at median: 40 per cent of the total award;
- Ranked below median: zero; and
- Ranked between median and top quintile: straight-line apportionment.

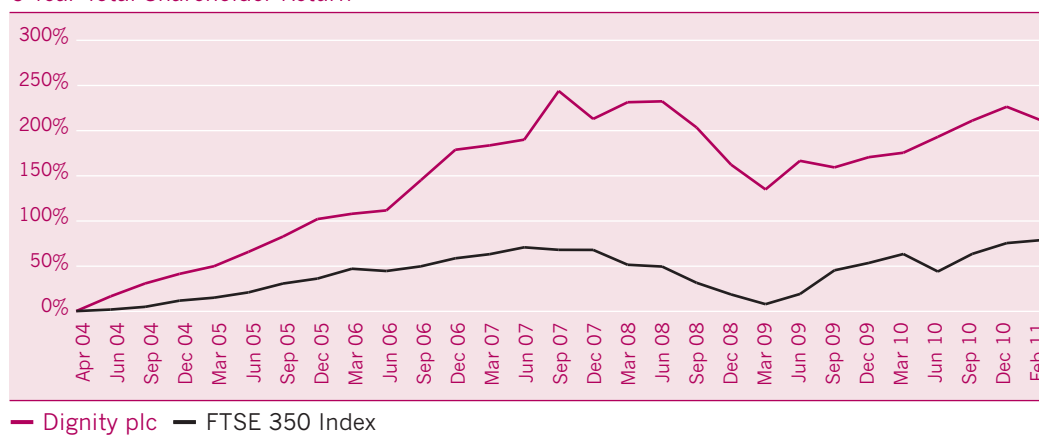
The percentage of the conditional share awards exercisable on vesting from the 2010 awards and onwards is calculated as follows:

- Ranked in the top quartile: 100 per cent of the total award;
- Ranked at median: 25 per cent of the total award;
- Ranked below median: zero; and
- Ranked between median and top quartile: straight-line apportionment.

In addition and irrespective of the TSR performance target, no award will vest unless, in the opinion of the Remuneration Committee, the underlying financial performance of the Group has been satisfactory over the measurement period.

The graph shows the Group's TSR compared to the FTSE 350. This gives a broad indication of the likelihood of any conditional award vesting.

6 Year Total Shareholder Return



On 27 March 2010 the conditional share awards made in 2007 under the LTIP became capable of vesting. The TSR of the Group over the measurement period was compared to that of the constituent companies of the FTSE 350 at the time the awards were made. The performance of the Group was found to be above median but below upper quintile such that 62.68 per cent of the shares were capable of vesting. On that basis the Remuneration Committee, mindful also of the continued strong performance of the Group, recommended that 62.68 per cent of shares vest. Shares were issued to Peter Hindley, Mike McCollum and Andrew Davies on 29 March 2010 and sold in their entirety on 31 March 2010 by the Group's brokers. On the same day 16,116 shares were issued to Richard Portman who sold 7,885 shares on 31 March 2010 and Steve Whittern was issued with 2,507 shares and sold 1,227 shares on 31 March 2010. Both sales were completed by the Group's brokers.

The total conditional awards held by each Director are shown on page 35 in the section of the Remuneration Committee's Report that is subject to audit.

In accordance with the ABI guidelines, the Group can issue a maximum of 10 per cent of its issued share capital in a rolling ten year period to employees under all share plans. In addition, of this 10 per cent, the Company can only issue 5 per cent to satisfy awards under discretionary or executive plans. At the period end, conditional awards under the LTIP Scheme to Executive Directors and senior managers amount to 1.38 per cent of the current issued share capital. If the awards in 2004, 2005, 2006 and 2007, that have vested, are included, that percentage is 3.15 per cent. The total, including SAYE options granted in both the 2004, 2007 and 2010 Schemes, is 5.25 per cent.

Pensions

Mike McCollum and Richard Portman are members of the Group's pension scheme into which the Group contributed 10.5 per cent of salary (details are set out within the audited section of this report on page 34). The Group makes no pension contributions for Andrew Davies or Steve Whittern. No Non-Executive Directors receive any pension contributions.

Benefits in kind

Benefits included the following elements: provision of a company car or allowance; fuel; landline telephone at each Executive Director's home residence; and a mobile telephone; together with a pre-arranged funeral plan in accordance with any scheme established by the Group in respect of the funeral of the Executive Director or his wife. All Executive Directors received all of their benefits in kind.

Non-Executive Directors' fees

The Board determines the fees of the Non-Executive Directors. It is based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Remuneration Committee and the Chief Executive). The level of fees of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles. Their fees are set by reference to the constituent companies of the bottom half of the FTSE 250.

Service contracts

Details of the service contracts with all Executive Directors and letters of appointment with Non-Executive Directors are as follows:

Name	Contract date	Notice period	Unexpired term of contract or letter of approval
Mike McCollum	1 April 2004	12 months	Rolling Contract
Andrew Davies	1 April 2004	12 months	Rolling Contract
Richard Portman	1 November 2006	12 months	Rolling Contract
Steve Whittern	1 January 2009	12 months	Rolling Contract
Peter Hindley	7 December 2010	3 months	36 months
James Newman	31 March 2010	3 months	15 months
Bill Forrester	31 March 2010	3 months	15 months
Ishbel Macpherson	7 December 2010	3 months	24 months
Alan McWalter	7 December 2010	3 months	24 months

There are no special provisions in service contracts of employees or Directors relating to cessation of employment or change of control. The policy on termination is that the Group does not make payments beyond its contractual obligations, which do not include any payment from the takeover or liquidation of the Group. In addition, the Remuneration Committee ensures that there have been no unjustified payments for failure.

The contracts of the Non-Executive Directors, Ishbel Macpherson and Alan McWalter were renewed for a further two years in December 2010. The contract of the Chairman, Peter Hindley, was also renewed for a three year period, rather than two, to provide additional continuity to the Board.

Under the Company's Articles of Association, one third of the Directors are required to submit themselves for re-election every year. This requirement will be superseded by the requirements of the 2010 Code from January 2011 which specifies that all Directors offer themselves for re-election each year. In accordance with the terms of the 2010 Code all Directors will submit themselves for re-election at the forthcoming Annual General Meeting in June 2011.

No Executive Directors hold a Non-Executive position with any other company. However, the Group allows one such appointment per Executive Director, for which they can retain the fees.

Audited information

The following information on pages 33 to 36 has been audited.

Directors' interest in shares

The interests of the Directors and their families in the Ordinary Shares of the Company at 31 December 2010 and 25 December 2009 were as follows:

Name	Ordinary Shares of 9 pence	
	31 December 2010 Number	25 December 2009 *Number
Peter Hindley	188,790	188,790
Mike McCollum	270,000	270,000
Andrew Davies	161,250	161,250
Richard Portman	106,782	99,728
Steve Whittern	6,987	5,890
James Newman	10,000	6,666
Bill Forrester	6,666	6,666
Ishbel Macpherson	5,695	5,695
Alan McWalter	3,000	3,000

* Comparative shareholdings have been restated following the share consolidation of six 10.5 pence shares for every seven 9 pence shares.

There has been no change in the interest set out above between 31 December 2010 and 10 January 2011.

Report on Directors' remuneration continued

for the 53 week period ended 31 December 2010

Directors' remuneration

The total of Directors' remuneration for the period was £2,541,000 (2009: £2,343,000), including pension contributions of £43,000 (2009: £18,000). The remuneration of individual Directors for the year or from their date of appointment was as follows:

	Salary and fees £'000	Non cash benefits* £'000	Cash benefits* £'000	Annual performance related bonus £'000	Total 2010 £'000	Total 2009 £'000
Executive Directors						
Mike McCollum	440	4	15	440	899	830
Andrew Davies	250	11	15	250	526	479
Richard Portman	200	3	15	200	418	386
Steve Whittern	150	4	15	150	319	294
Non-Executive Directors						
Peter Hindley	150	1	–	–	151	151
James Newman**	60	–	–	–	60	60
Bill Forrester	45	–	–	–	45	45
Ishbel Macpherson	40	–	–	–	40	40
Alan McWalter	40	–	–	–	40	40
Total	1,375	23	60	1,040	2,498	2,325

*Benefits include the following elements: provision of a company car or allowance, fuel, landline telephone at each Executive Director's home residence and a mobile telephone together with a pre-arranged funeral plan in accordance with any scheme established by the Group in respect of the funeral of the Executive Director or his wife.

**James Newman's fees and expenses are invoiced to the Company by West Wood on Derwent Ltd.

Subsequent to the period-end the Non-Executive Directors fees were reviewed upwards as follows:

	£'000
Peter Hindley	153
James Newman	66
Bill Forrester	48
Ishbel Macpherson	41
Alan McWalter	41

No Director waived emoluments in respect of the 53 week period ended 31 December 2010 or the 52 week period ended 25 December 2009.

Directors' pension entitlements

Defined benefit salary scheme

	Change in accrued benefit over the period (1) £	Transfer value at 31 December 2010 (2) £	Transfer value at 25 December 2009 (2) £	Change in transfer value less Directors' contributions £	Change in accrued benefit in excess of inflation £	Transfer value of change in accrued benefit net of Directors' contributions £	Accumulated total accrued pension at 31 December 2010 (3) £
Mike McCollum	23,844	831,170	561,884	240,061	21,633	152,355	95,181
Richard Portman	8,216	343,210	233,760	95,450	7,448	60,414	32,986

(1) Throughout 2010 the above Directors were members of the Dignity Pension and Assurance Scheme, which is a defined benefit and tax approved scheme to which both the Director and the Company contribute and remains open to all employees.

(2) Transfer values have been calculated in accordance with the transfer value basis set by the Trustees.

(3) Pension accruals shown are the amounts that would be paid annually on retirement based on service at the end of the current period. This equates to accrued entitlement.

(4) During 2010 the Trustees of the Dignity Pension and Assurance Scheme resolved to remove the cap on the maximum pension that a member could accrue. This will affect the pension that Mike McCollum could potentially accrue.

Long Term Incentive Plan

Members approved the LTIP on 5 June 2009.

Awarded in 2010 for £nil consideration:

	2010			
	Market value of shares conditionally awarded during the period (2) £	Value of shares conditionally awarded during the period as a percentage of salary (3)	Number of shares conditionally awarded during the period	Date of the end of the holding period when shares may be exercised
Mike McCollum	550,000	125%	82,011	After 18 March 2013
Andrew Davies	312,500	125%	46,597	After 18 March 2013
Richard Portman	250,000	125%	37,278	After 18 March 2013
Steve Whittern	187,500	125%	27,958	After 18 March 2013

Awarded in 2009 for £nil consideration:

	2009			
	Market value of shares conditionally awarded during the period (4) £	Value of shares conditionally awarded during the period as a percentage of salary (3)	Number of shares conditionally awarded during the period	Date of the end of the holding period when shares may be exercised
Mike McCollum	550,000	125%	89,184	After 20 March 2012
Andrew Davies	312,500	125%	50,673	After 20 March 2012
Richard Portman	250,000	125%	40,538	After 20 March 2012
Steve Whittern	187,500	125%	30,404	After 20 March 2012

Awarded in 2008 for £nil consideration:

	2008			
	Market value of shares conditionally awarded during the period (5) £	Value of shares conditionally awarded during the period as a percentage of salary (3)	Number of shares conditionally awarded during the period	Date of the end of the holding period when shares may be exercised
Peter Hindley	437,500	125%	60,212	After 17 March 2011
Mike McCollum	343,750	125%	47,309	After 17 March 2011
Andrew Davies	250,000	125%	34,407	After 17 March 2011
Richard Portman	187,500	125%	25,805	After 17 March 2011
Steve Whittern	29,080	33%	4,000	After 17 March 2011

Awarded in 2007 for £nil consideration:

	2007					Date options exercised
	Number of shares conditionally awarded on 27 March 2007	Market value of shares conditionally awarded on 27 March 2007 £	Number of shares vesting in the period to 31 December 2010 (6)	Gain on vesting £	Market value of shares at the date of vesting (7) £	
Peter Hindley	63,799	418,750	39,992	252,349	252,350	29 March 2010
Mike McCollum	47,611	312,500	29,844	188,315	188,316	29 March 2010
Andrew Davies	35,423	232,500	22,204	140,106	140,107	29 March 2010
Richard Portman	25,710	168,750	16,116	101,691	101,692	29 March 2010
Steve Whittern	4,000	26,254	2,507	15,818	15,819	29 March 2010

The total aggregated gain on vesting in 2010 was £698,279.

Report on Directors' remuneration continued

for the 53 week period ended 31 December 2010

The total options held by Directors at 31 December 2010 were:

	Ordinary Shares of 10.5 pence		
	LTIP	SAYE	TOTAL
Peter Hindley	60,212	–	60,212
Mike McCollum	218,504	–	218,504
Andrew Davies	131,677	–	131,677
Richard Portman	103,621	1,283	104,904
Steve Whittern	62,362	1,283	63,645
Total	576,376	2,566	578,942

- (1) Awards under the LTIP up to and including those made in 2009 will only be released if the Group's comparative TSR performance is equal to or greater than the median level of performance over the holding period at which point 40 per cent of the award will be released, with full vesting occurring for upper quintile performance. Vesting occurs on a straight-line basis between those points. The Award in 2010 and all awards thereafter will only be released if the Group's comparative TSR performance is equal or greater than the median level of performance over the holding period at which point 25 per cent of the award will be released with full vesting occurring for an upper quartile performance. Vesting occurs on a straight-line basis between these points.
- (2) Value based on the average mid market share price for the previous 28 days to 18 March 2010.
- (3) Value as a percentage of salary as at the date the awards were made.
- (4) Value based on the average mid market share price for the previous 28 days to 18 March 2009.
- (5) Value based on the average mid market price for the previous 28 days to 14 March 2008.
- (6) 62.68 per cent of the shares awarded on 28 March 2007 vested as the TSR of the Group was lower than the top quintile but above the median when compared to the TSR of the constituent companies of the FTSE 350 at the time the awards were made.
- (7) Based on a closing market price of £6.31 per share on 26 March 2010, being last business day before the day the options were capable of vesting.

Inland Revenue Approved SAYE Share Option Scheme

	Date of grant	Number held at 25 December 2009	Granted	Lapsed	Number held at 31 December 2010	Exercise date
Mike McCollum	21 May 2007	1,322	Nil	1,322	Nil	30 June 2010
Richard Portman	21 May 2007	1,322	Nil	1,322	Nil	30 June 2010
	22 October 2010	Nil	1,283	Nil	1,283	1 Dec 2013
Steve Whittern	21 May 2007	1,322	Nil	1,322	Nil	30 June 2010
	22 October 2010	Nil	1,283	Nil	1,283	1 Dec 2013

The SAYE options granted on 22 October 2010 have an exercise price of £7.01 per share and must be exercised within six months of the date shown above. The share price on this day was £6.46.

The market price of the Group's shares on 31 December 2010 was £7.20 per share. The high and low share closing prices in the period were £7.23 per share and £5.94 per share respectively.

On behalf of the Board

Bill Forrester

Chairman of the Remuneration Committee
10 March 2011

Directors' statement on corporate governance

Introduction

The Board is committed to high standards of corporate governance in order to achieve its objectives and meet the necessary standards of accountability and integrity. In accordance with the Listing Rules of the Financial Services Authority, Dignity plc is required to state whether it has complied with the relevant provisions set out in Section 1 of the 2008 Combined Code (the Code) and, where the provisions have not been complied with, to provide an explanation. Dignity plc is also required to explain how it has applied the principles set out in the Code. This Directors' Statement on Corporate Governance and the Report on Directors' Remuneration on pages 30 to 41 provide a description of how the main and supporting principles of the Code have been applied within Dignity plc during 2010. The Group has complied with all provisions of the Code during 2010 with the exception of:

On 29 December 2008 Peter Hindley was appointed Chairman upon relinquishing his responsibilities as Chief Executive and the retirement of the then Chairman. This is contrary to provision A.2.2. of the Code. However, as suggested by the Code, this appointment was only made after consultation with major shareholders of the Group. The Board felt it was important to retain the skills and knowledge of Peter Hindley, given he is both a prominent and influential figure in the funeral industry. Peter Hindley is not regarded as independent under provision A.3.1. of the Code.

The Board also recognises that the Code has been superseded by the UK Corporate Governance Code (2010 Code) that was published in June 2010 and applicable for periods beginning on or after 29 June 2010. It is the Board's intention to implement the new guidance during 2011.

Narrative statement

The Code establishes nine principles of good governance, which are split into four areas as outlined below:

1. The Board

The Group is controlled through the Board of Directors that meets regularly throughout the year. Informal meetings are held between individual Directors as required. The Board has adopted a formal schedule of matters reserved to it.

The Board is responsible for:

- Overall management of the Group;
- Setting and reviewing the strategy of the Group;
- Approval of major capital expenditure and acquisition projects, and consideration of significant financial matters;
- Monitoring the exposure to key business risks;
- Setting annual budgets and reviewing progress towards achievement of these budgets; and
- Proposing and making dividend payments to shareholders.

All Directors are provided with the necessary papers in advance of the meetings to permit them to make informed decisions at those meetings. The Board also considers employee issues and key appointments, including the role of Company Secretary.

The Board comprises eight Directors and the Non-Executive Chairman. There are the same number of independent Non-Executive Directors and Executive Directors. The Board considers that four Executive Directors are sufficient to manage a Company of this size and organisational structure.

There is a clear division of responsibility between the Non-Executive Chairman and the Chief Executive so as to give no individual, unfettered powers of decision making. The Chairman is responsible for:

- Ensuring the Board functions in all aspects of its role;
- Facilitating the effective contribution of the Non-Executive Directors and ensuring constructive relations between Executive and Non-Executive Directors;
- Setting the agenda so all relevant issues are discussed; and
- Ensuring effective communication with stakeholders and acting as the public face of the Group.

The Chief Executive is responsible for:

- Operational management and control of the Group on a day-to-day basis;
- Formulating and proposing strategy to the Board; and
- Implementing the strategy and policies adopted by the Board.

The four independent Non-Executive Directors are Bill Forrester, Ishbel Macpherson, Alan McWalter, and James Newman. James Newman is the appointed Senior Independent Director of the Group. Biographical details, including committee membership, appear on page 26. The Chairman and the Non-Executive Directors have formally confirmed to the Board, mindful of their other commitments they have, that they will have sufficient time to devote to their responsibilities as Directors of the Group.

Directors' statement on corporate governance continued

Bill Forrester, Ishbel Macpherson, Alan McWalter, and James Newman are independent of management, as defined by the Code.

All Directors are able to take independent professional advice on the furtherance of their duties if necessary. They also have access to the advice and services of the Company Secretary, who is also the Corporate Services Director and, where it is considered appropriate and necessary, training is made available to Directors. All Directors receive annual training and updates on the duties and responsibilities of being a Director of a listed company. This covers legal, accounting and tax matters as required. The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £50 million.

The Directors have, during the period, formally reminded themselves of their duties as Directors under the Companies Act 2006 (Section 171-177). These duties include the need to avoid conflicts of interest (Section 175). No such conflicts of interests exist.

In accordance with the 2010 Code all Directors will submit themselves for re-election at the forthcoming Annual General Meeting.

The Board has established a Remuneration Committee, an Audit Committee and a Nomination Committee, all of which operate within defined terms of reference. The specific terms of reference for all the Committees may be obtained from the Company Secretary at the Registered Office and they are also available for inspection on the Group's investor website www.dignityfuneralsplc.co.uk. All Committees are provided with sufficient resources to undertake their duties.

Those attending and the frequency of Board and Committee meetings held during the year was as follows:

	Main Board(i)	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	8	3	6	2
Andrew Davies	7	0	0	0
Bill Forrester	7	3	6	1
Peter Hindley	8	3(ii)	5(ii)	2
Mike McCollum	8	3(ii)	1(ii)	0
Alan McWalter	8	3	6	2
Ishbel Macpherson	8	3	6	2
James Newman	5	3	5	2
Richard Portman	8	3(iii)	4(iii)	2(iii)
Steve Whittern	8	3(ii)	0	0

(i) Only full Board meetings have been included in the attendance analysis. Eight further meetings were held with a quorum of Directors to approve announcements, documents or the issue of shares under the LTIP and SAYE.

(ii) In attendance by invitation of the respective Committee.

(iii) Richard Portman attended certain Committee meetings in his capacity as Company Secretary.

When Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. A process exists whereby such views will be included in the minutes of the meeting if necessary.

A process exists whereby the Non-Executive Directors can meet without the Executive Directors being present. Three such meetings were held during 2010.

During the year, the Board again undertook a formal and rigorous evaluation of its own performance and that of its Committees and Directors by way of the issue of a detailed questionnaire to all Directors. This was then followed by a detailed review of the responses, by the Directors, and identification of any actions arising. The Non-Executive Directors, led by the Senior Independent Director, are responsible for the performance evaluation of the Chairman. The Board was satisfied that its performance and that of its individual Directors and Committees was of the appropriate standard. Full evaluations will be completed again during 2011. As required under the 2010 Code the Board will implement external facilitation such that it meets the requirement of having external facilitation once every three years.

The Company Secretary, Richard Portman, is responsible for the preparation and distribution of all agendas, minutes and related Board and Committee papers. As Corporate Services Director, he attends the Board meetings in his capacity as a Director of the Company but also acts as Secretary to those meetings. He attends the Committee meetings in his capacity as Company Secretary and also as Secretary of those Committees when requested to do so by the Chairman of that Committee. He is also responsible for ensuring all Board procedures are followed and for advising the Board on corporate governance matters.

2. Directors' remuneration

The Remuneration Committee, chaired by Bill Forrester, determines and agrees with the Board, within formal terms of reference, the framework and policy of Directors' and senior management's remuneration and its cost to the Group. The Committee met six times during 2010. The Committee considers the performance of the Executive Directors as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final approval.

The Committee members during 2010 were the independent Non-Executive Directors, Bill Forrester, James Newman, Ishbel Macpherson and Alan McWalter. The Code requires a Committee of at least three members. The Chief Executive and the Chairman can also attend the meetings by invitation of the Committee. No Director or senior manager is involved in any decisions with regard to their own remuneration. The Chairman of the Board is not a member of the Remuneration Committee.

The Executive Directors recommend the remuneration of Non-Executive Directors and recommendations take into account role, responsibilities and time commitment in the fulfilment of those duties. The Non-Executive Directors are not eligible for pensions and do not participate in the Group's bonus or share schemes. The Committee has considered the remuneration of senior management immediately below Board level during the year. It concluded that their remuneration was commensurate with their various duties and in line with market rates.

3. Accountability and audit

Audit Committee

The Audit Committee in 2010 comprised the four independent Non-Executive Directors. James Newman, who is a Fellow of the Institute of Chartered Accountants in England and Wales, is considered to have recent and relevant financial experience to chair this Committee. Its membership is restricted to Non-Executive Directors whose qualifications are shown in their biographies on page 26. The Committee has specific written terms of reference that explain its authority and duties. The Committee has met three times during 2010. The external auditors, the Chairman, the Chief Executive and the Finance Director have attended all the meetings by invitation. The external auditors and the internal audit function also have the right to private audiences with the Audit Committee or its Chairman if either party requires or requests them. Two meetings were held during 2010 between the Chairman and the external auditors. The Chairman of the Board is not a member of the Audit Committee.

The Committee reviews the Group's Annual Report and Interim Report before submission to the Board. It keeps under review the Group's accounting policies, financial controls and internal control and risk management systems. It also evaluates, on a regular basis, the work of the internal audit function and reviews its effectiveness. The Committee also reviews matters brought to its attention both internally and by the external auditors. The Committee reports all findings to the Board.

A formal process, established via the Audit Committee, exists by which employees of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. This ensures arrangements are in place for the proportionate and independent investigation of such matters and appropriate follow-up action.

The Committee also keeps under review the relationship with the external auditors, including their terms of engagement, independence, objectivity and effectiveness. The Committee reviews the remuneration received by the external auditors for non-audit work to safeguard the independence of the external auditors, which ongoing principally relates to taxation advice. During 2011 the Committee will adopt a formal policy as to the approach of such work. The external auditors have confirmed their audit independence in writing to the Committee. This confirmation specifically contemplated the additional work that PricewaterhouseCoopers LLP provided the Group during the year in respect of the issue of further Secured Notes and subsequent Return of Value to shareholders. The Committee also retains responsibility for the appointment and removal of the external auditors.

PricewaterhouseCoopers LLP have been the Group's auditors since the management buy out from SCI in 2002. PricewaterhouseCoopers LLP, were auditors of SCI at this time. The Audit Committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. Accordingly, it has not considered it necessary to date to require the firm to tender for the audit work. The external auditors are required to rotate the Group audit partner every five years and this is the second year for the current lead audit partner Matthew Mullins. There are no contractual obligations restricting the Company's choice of external auditor. However, under the terms of the Secured Notes, Dignity (2002) Limited and certain of its subsidiaries are only permitted to use PricewaterhouseCoopers LLP, KPMG LLP, Deloitte LLP or Ernst & Young LLP (or their successor firms).

Reporting responsibilities

The Board is required to present a balanced and understandable assessment of the Group's position and prospects, not only in the Directors' Report and Accounts but also in the Chairman's Statement (page 4), the Chief Executive's Overview (page 5), the Business Review (pages 6 to 11), the Financial Review (pages 22 to 24), Interim Reports, Interim Management Statements and in price sensitive announcements. The Group will release its Annual Information Update by 1 April 2011. A summary of the Directors' responsibilities for the financial statements is set out on page 27.

Directors' statement on corporate governance continued

Going concern

The Directors receive and review regularly management accounts, cash balances, forecasts and the annual budget together with securitised debt covenant compliance. After careful consideration, and mindful of the current market conditions, the Directors confirm they are satisfied that the Group and the Company has adequate resources to continue operating for the foreseeable future. The Directors formally considered this matter at the Board meeting held on 3 March 2011. For this reason, they continue to adopt the going concern basis for preparing the financial statements.

Internal control

The Board recognises it is responsible for the Group's system of internal control, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. A formal process of identifying, evaluating and managing the significant risks faced by the Group exists. This process was in place at the date of approval of the Annual Report and is in accordance with the Code.

Internal controls are formally reviewed on an ongoing basis. Internal Audit completes a programme of work each year that provides assurance that the internal controls they have tested are working effectively and also propose improvements where appropriate and necessary. Coupled with this, the bi-annual review of the Risk Register provides a further formal review mechanism for considering and reviewing internal controls. All such work is reported to and monitored by the Audit Committee.

The Audit Committee on behalf of the Board, as part of an ongoing process, has formally reviewed and continues to keep under review the effectiveness of the Group's systems of internal controls, including financial, operational and compliance controls and risk management systems. The Audit Committee reviews risk management annually and receives reports from executive management regarding weaknesses in internal control, any losses arising out of weaknesses in internal control and progress in implementing revised procedures to improve and enhance internal control. There have been no reports of system weaknesses that have resulted or would have resulted in a material misstatement or loss.

The key procedures, which operated throughout the period, are as follows:

- Financial reporting – The Group has a comprehensive system of internal budgeting and forecasting. The Group's monthly actual results analysed by operating division are reported to the Board and significant variances to budget are investigated with revised forecasts prepared as necessary. Operational management receives comprehensive management accounts covering their areas of responsibility, which forms the basis for the consolidated accounts;
- Financial controls – The Executive Directors have defined appropriate and necessary financial controls and procedures to be employed by operational management. Key controls over major business risks include reviews against budgets and forecasts, review against key performance indicators and exception reporting;
- Quality and integrity of personnel – One of the Group's core values is integrity. This is regarded as vital to the maintenance of the Group's system of internal financial control. The Directors have put in place an organisation structure appropriate to the size and complexity of the Group with defined lines of responsibility and delegation of authority where the Board considers it necessary and appropriate;
- Internal audit – The Group has a dedicated Internal Audit team, which reports to the Chief Executive. It coordinates the completion of self-assessment reports by operational management that assists in highlighting areas of control weakness or exposure. Internal audit reviews are completed on such areas together with selected areas of the head office function and any area where an Executive Director requests a review. During 2010 (as in 2009), there were quarterly meetings between the Head of Internal Audit and the Executive Directors to formally review and discuss Internal Audit's work programme and findings. In addition, regular meetings between Internal Audit and the external auditors, PricewaterhouseCoopers LLP, were held during the year to discuss and plan audit work and to ensure a complementary approach. The Head of Internal Audit reports to the Audit Committee at every meeting;
- Procedures – The Group has established and documented processes and procedures covering most parts of its operations, both client facing and in support departments. These provide clear guidance on the correct or most appropriate course of action in various circumstances. Procedures are supplemented by training where needs have been identified. Both Internal Audit and a comprehensive management structure monitor the adherence to such processes and procedures. A comprehensive review of procedures and training commenced during 2008 and is ongoing; and
- Risk assessment – Management has responsibility for the identification and evaluation of significant risks that might arise in their area of responsibility together with the design of suitable internal controls. The Executive Directors and the wider management team continually assess the risks. A Risk Register is maintained, which is formally presented to and reviewed by the Audit Committee twice a year.

Nomination Committee

Peter Hindley, the Chairman, chaired the Nomination Committee during 2010, which met on two occasions during the year. The other members of the Committee are James Newman, Bill Forrester, Ishbel Macpherson and Alan McWalter.

The Committee regularly reviews and makes recommendations to the Board on the structure, size and composition of the Board and the senior management team. It is also responsible for identifying and nominating for the approval of the Board, replacement or additional Directors and members of the senior management team. The Committee formally considers succession planning annually under the written terms of reference.

4. Relations with shareholders

The Group encourages two-way communication with both its institutional and private shareholders and responds promptly to any queries received.

The Chief Executive and Finance Director have regular meetings with institutional investors, fund managers and analysts to discuss information made public by the Group. Where appropriate or if requested, such meetings could include either or both the Chairman and the Senior Independent Director. The Chairman and the Senior Independent Director are also available to meet separately with shareholders if necessary or requested. The Chairman is also available to discuss governance and strategy matters with the major shareholders. The Corporate Services Director, in his additional role as Company Secretary, generally deals with queries from private shareholders.

The Group has and will arrange visits to its funeral locations and crematoria, if requested by a shareholder, where it will not disrupt services to our clients.

Each year all shareholders receive the Annual Report and Accounts. The Interim Report is no longer published as a paper document but is available on the Group's separate investor website www.dignityfuneralsplc.co.uk, upon which users can also access the latest financial and corporate news.

The Board regards the Annual General Meeting, which this year is on 9 June 2011, as an opportunity to communicate directly with all shareholders. At least 20 working days notice will be given of the Annual General Meeting at which all Directors plan to be present and available to answer questions.

Independent Auditors' report to the members of Dignity plc

for the 53 week period ended 31 December 2010

We have audited the consolidated financial statements of Dignity plc for the 53 week period ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, set out on page 27, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and, the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit and cash flows for the 53 week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the 53 week period ended 31 December 2010 for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement set out on page 29, in relation to going concern;
- the part of the Directors' Statement on Corporate Governance relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors remuneration.

Other matter

We have reported separately on the parent company financial statements of Dignity plc for the 53 week period ended 31 December 2010 and on the information in the Report on Directors' Remuneration that is described as having been audited.

Matthew Mullins (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

10 March 2011

Consolidated income statement

for the 53 week period ended 31 December 2010

	Note	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Revenue	3	199.1	184.7
Cost of sales		(87.3)	(85.1)
Gross profit		111.8	99.6
Administrative expenses		(53.2)	(43.6)
Other income		1.8	1.5
Operating profit	3	60.4	57.5
Analysed as:			
Operating profit before profit on sale of fixed assets and before transaction costs		61.0	56.4
Profit on sale of fixed assets		0.5	1.1
Transaction costs	5	(1.1)	–
Operating profit		60.4	57.5
Finance costs	4	(22.5)	(21.6)
Finance income	4	1.9	1.6
Profit before tax	5	39.8	37.5
Taxation – before exceptional items	6	(11.5)	(10.9)
Taxation – exceptional	6	0.7	–
Taxation	6	(10.8)	(10.9)
Profit for the period attributable to equity shareholders	3	29.0	26.6
Earnings per share for profit attributable to equity shareholders (pence)			
– Basic and diluted	8	46.9p	41.8p
Underlying Earnings per share (pence)	8	46.4p	40.5p

Consolidated statement of comprehensive income

for the 53 week period ended 31 December 2010

	Note	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Profit for the period		29.0	26.6
Actuarial loss on retirement benefit obligations	28	(2.0)	(4.8)
Tax on actuarial loss on retirement benefit obligations	6	0.6	1.3
Other comprehensive loss		(1.4)	(3.5)
Comprehensive income for the period		27.6	23.1
Attributable to:			
Equity shareholders of the parent		27.6	23.1

Consolidated balance sheet

as at 31 December 2010

	Note	31 December 2010 £m	25 December 2009 Restated (a) £m
Assets			
Non-current assets			
Goodwill	9	142.9	139.7
Intangible assets	9	39.5	35.9
Property, plant and equipment	10	133.6	116.8
Financial and other assets	11	12.0	9.4
Retirement benefit asset	28	8.5	9.1
		336.5	310.9
Current assets			
Inventories	13	5.2	4.1
Trade and other receivables	14	24.0	21.5
Cash and cash equivalents	15	48.1	45.8
		77.3	71.4
Total assets		413.8	382.3
Liabilities			
Current liabilities			
Financial liabilities	16	8.7	8.5
Trade and other payables	17	32.0	34.5
Current tax liabilities		4.8	4.3
Provisions for liabilities and charges	19	1.5	1.3
		47.0	48.6
Non-current liabilities			
Financial liabilities	16	338.5	266.6
Deferred tax liabilities	20	27.3	26.0
Other non-current liabilities	17	2.9	3.1
Provisions for liabilities and charges	19	2.9	2.5
		371.6	298.2
Total liabilities		418.6	346.8
Shareholders' equity			
Ordinary share capital	22	5.7	5.7
Share premium account		17.4	35.8
Capital redemption reserve		99.3	80.0
Other reserves		(8.8)	(8.9)
Retained earnings		(118.4)	(77.1)
Equity attributable to shareholders		(4.8)	35.5
Total equity and liabilities		413.8	382.3

(a) In accordance with IFRS 3, the Group has been required to restate its prior year balance sheet. See note 1 for further details.

The financial statements on pages 43 to 82 were approved by the Board of Directors on 10 March 2011 and were signed on its behalf by:

M K McCollum
Chief Executive

S L Whittern
Finance Director

Consolidated statement of changes in equity

as at 31 December 2010

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Shareholders' equity as at 26 December 2008	5.7	34.6	80.0	(8.9)	(93.0)	18.4
Profit for the 52 weeks ended 25 December 2009	–	–	–	–	26.6	26.6
Actuarial loss on defined benefit plans	–	–	–	–	(4.8)	(4.8)
Tax on pensions	–	–	–	–	1.3	1.3
Effects of employee share options	–	–	–	1.0	–	1.0
Tax on employee share options	–	–	–	0.2	–	0.2
Share issue under 2006 LTIP Scheme	–	1.2	–	–	–	1.2
Gift to Employee Benefit Trust (1)	–	–	–	(1.2)	–	(1.2)
Dividends	–	–	–	–	(7.2)	(7.2)
Shareholders' equity as at 25 December 2009	5.7	35.8	80.0	(8.9)	(77.1)	35.5
Profit for the 53 weeks ended 31 December 2010	–	–	–	–	29.0	29.0
Actuarial loss on defined benefit plans	–	–	–	–	(2.0)	(2.0)
Tax on pensions	–	–	–	–	0.6	0.6
Effects of employee share options	–	–	–	0.9	–	0.9
Tax on employee share options	–	–	–	0.1	–	0.1
Adjustment for tax rate change 28% to 27%	–	–	–	–	0.1	0.1
Share issue under 2007 LTIP Scheme	–	0.9	–	–	–	0.9
Gift to Employee Benefit Trust (2)	–	–	–	(0.9)	–	(0.9)
Issue of B Shares in respect of Capital Option (see note 7)	–	(19.3)	–	–	–	(19.3)
Redemption of B Shares in respect of Capital Option (see note 7)	–	–	19.3	–	(19.3)	–
Dividend in respect of Special Dividend Option and Deferred Dividend Option (see note 7)	–	–	–	–	(44.6)	(44.6)
Dividends (see note 7)	–	–	–	–	(5.1)	(5.1)
Shareholders' equity as at 31 December 2010	5.7	17.4	99.3	(8.8)	(118.4)	(4.8)

(1) Relating to issue of shares under 2006 LTIP scheme.

(2) Relating to issue of shares under 2007 LTIP scheme.

The above amounts relate to transactions with owners of the Company except for the profit for the period and also pension items (net of tax) of £1.4 million loss (December 2009: £3.5 million loss).

The capital redemption reserve represents £80,002,465 B Shares that were issued on 2 August 2006 and redeemed for cash on the same day and £19,274,610 B Shares that were issued on 10 October 2010 and redeemed for cash on 11 October 2010.

Consolidated statement of cash flows

for the 53 week period ended 31 December 2010

	Note	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Cash flows from operating activities			
Cash generated from operations before transaction costs and exceptional pension contributions	25	74.5	65.3
Costs in respect of redemption of B and C Shares		(0.8)	–
Exceptional contribution to pension scheme		(1.0)	–
Transaction costs in respect of acquisitions		(0.3)	–
Cash generated from operations		72.4	65.3
Finance income received		0.4	0.7
Finance costs paid		(32.6)	(20.5)
Transfer from restricted bank accounts for finance costs		9.9	10.0
Payments to restricted bank accounts for finance costs	15	–	(9.9)
Total payments in respect of finance costs		(22.7)	(20.4)
Tax paid		(10.1)	(8.5)
Net cash generated from operating activities		40.0	37.1
Cash flows from investing activities			
Acquisition of subsidiaries and businesses (net of cash acquired)	26	(5.8)	(13.3)
Proceeds from sale of property, plant and equipment		1.1	2.1
Vehicle replacement programme and improvements to locations		(10.3)	(8.0)
Branch relocations		(0.6)	(1.3)
Satellite locations		(1.0)	–
Development of new crematoria		(13.9)	(6.2)
Mercury abatement project		(2.1)	(1.7)
Purchase of property, plant and equipment		(27.9)	(17.2)
Net cash used in investing activities		(32.6)	(28.4)
Cash flows from financing activities			
Proceeds from issue of Secured Notes		87.1	–
Proceeds from borrowings	16	–	2.6
Issue costs in respect of borrowings of Secured Notes	16	(4.5)	–
Repayment of borrowings		(8.9)	(4.9)
Transfer from restricted bank accounts for repayment of borrowings		2.6	2.4
Payments to restricted bank accounts for repayment of borrowings	15	–	(2.6)
Total payments in respect of borrowings		(6.3)	(5.1)
Dividends paid to shareholders on Ordinary Shares	7	(5.1)	(7.2)
Redemption of B Shares in respect of Capital Option	7	(19.3)	–
Redemption of C Shares in respect of Special Dividend Option	7	(44.5)	–
Net cash generated/(used) in financing activities		7.4	(9.7)
Net increase/(decrease) in cash and cash equivalents		14.8	(1.0)
Cash and cash equivalents at the beginning of the period		31.8	32.8
Cash and cash equivalents at the end of the period	15	46.6	31.8
Restricted cash	15	1.5	14.0
Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet	15	48.1	45.8

Notes to the financial statements

for the 53 week period ended 31 December 2010

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Prior year adjustment resulting from standards effective in 2010

The Group have revised the fair value of a prior year acquisition and accordingly as a result of IFRS 3 (Revised) becoming effective in the period, the December 2009 balance sheet has been restated, by increasing goodwill by £0.3 million and by increasing trade and other payables by the same amount. IFRS 3 (Revised) has other effects which do not affect the prior year balance sheet.

Basis of preparation

European law requires that the Group's consolidated financial statements for the 53 week period ended 31 December 2010 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRSs'), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ('IFRIC') interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of pensions and financial assets and liabilities at fair value through the income statement.

Preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. This will also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from those estimates.

Basis of consolidation

The financial statements are presented in the form of Group financial statements. The Group financial statements consolidate the accounts of the Company and the entities controlled by the Company (including all of its subsidiary entities) after eliminating internal transactions. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain economic benefits from its activities.

Results of subsidiary undertakings acquired during the period are included from the effective date of control using the acquisition method of accounting. The separable net assets, both tangible and intangible, of newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value to the Group as at the effective date of control.

Exceptional items

Exceptional items are of a non-recurring nature to the results for the period and are therefore presented separately.

Pre-arranged funeral plan trusts

The three pre-arranged funeral plan trusts were not consolidated during the period as they were not controlled by the Group. Specifically, Article 60 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 requires a majority of the managing trustees to be independent of the Group. Furthermore, the Group did not direct their financial and operating policies, nor did it have substantially all of the risks and rewards of their ownership.

Revenue

Revenue from funeral operations comprises the amount recoverable from customers for the provision of funerals, income from crematoria and other services, to the extent that those services have been performed or the goods supplied.

Revenues include amounts receivable from the pre-arranged funeral plan trusts for funerals performed by the Group for pre-arranged funeral plan members.

Income from memorial sales is recognised at the point of sale, to the extent that the goods have been supplied. Costs of maintaining memorials are recognised as incurred.

The accounting policies for recognising turnover for pre-arranged funeral plans are stated below. The Group pays certain disbursements such as crematoria fees, burial plots, ministers' fees and doctors' fees on behalf of its clients. These amounts are recovered as part of the invoicing process. However, these amounts are not included within net revenues as they are simply passed on to the customer at cost.

The Group views the United Kingdom as one geographical segment, given each local business exhibits similar long term characteristics.

All amounts are exclusive of VAT.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

1 Accounting policies (continued)

Pre-arranged funeral plans

Trust plans

The Group markets and sells pre-arranged funeral plans, monies received from selling funeral plans being held and controlled by independent pre-arranged funeral plan trusts ('the Trusts'). The responsibility for the ultimate performance of funerals is allocated to funeral directors, who are selected by the beneficiary of the plan and some of whom are not owned by the Group.

The Group receives monies from the Trusts in respect of the following transactions:

- A marketing and administration fee in respect of each plan sold. The marketing element is only refundable in the event that the plan is subsequently cancelled. A provision is made for cancellations based on historical experiences, where material, to cover the estimated marketing element refundable to the Trusts. Marketing and administration fees are included in Group revenue when the related plan is sold less the provision for refunds arising on cancellations; and
- Further contributions are also received from the Trusts in return for the provision of general ongoing administrative services supplied to the Trusts. These contributions are included in Group revenue for the period to which they relate.

All costs in respect of the marketing and administration of the pre-arranged funeral plans are expensed in the Group income statement as incurred.

From time to time, the Group receives monies from certain of the Trusts, in line with the relevant Trust's deed, which have been assessed by the trustees as not required to ensure the Trust has sufficient assets to meet its future liabilities in respect of current members ('Recoveries'). All Recoveries are recognised as other operating income in the period in which the trustees approve their payment.

The Group makes payments on behalf of the Trusts relating to the ongoing overheads of the Trusts, refunds to members of the Trusts in event of cancellation, and the payments made to third party funeral directors when the funeral is ultimately performed. All such payments are reimbursed in full by the Trusts on demand, in accordance with the terms of the relevant Trust's deed.

Neither the sales value of plans nor the costs of providing funerals are recognised in the financial statements of the Group when a pre-arranged funeral plan is sold.

Each Dignity marketing company contractually guarantees with the customer of a pre-arranged funeral plan that (i) if the customer chooses to cancel their selected funeral plan, a full refund will be made to the customer of all monies paid in respect thereof (less in certain cases an administration fee payable to the relevant Dignity marketing company); (ii) the funeral director's services (as selected by the customer) will be provided regardless of price rises in the future; and (iii) for certain plans sold, specific disbursements will be provided regardless of price rises in the future.

Insurance plans

The Group is the named beneficiary on a number of life assurance products sold by third party insurance companies, in consideration for which the Group has committed to performing the funeral (including some disbursements) of the plan holder at no further charge.

A commission is paid when the policy is charged to the Group. As this commission is fully refundable if the Group does not perform the funeral for any reason, it is carried as a debtor and expensed when the funeral is performed.

In the event of death of the policyholder, the Group makes an agreed payment to the nominated funeral director and a debtor is recognised. At this time a commission fee is recognised as turnover. All monies are reclaimed in full from the life insurance company.

Share-based payments

The Group issues equity settled share-based payments to certain employees. A fair value for the equity settled share awards is measured at the date of grant. Management measures the fair value using the valuation technique that they consider to be the most appropriate to value each class of award, which include Black-Scholes calculations and Monte Carlo simulations. The valuations take into account factors such as non-transferability, exercise restrictions and behavioural considerations.

An expense is recognised to spread the fair value of each award over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The estimate of the level of vesting is reviewed at least annually, with any impact on the cumulative charge being recognised immediately.

Earnings per Ordinary Share

Basic Earnings per Ordinary Share ('EPS') is calculated by dividing the profit on ordinary activities after taxation by the weighted average number of shares in issue during the period. Diluted EPS is calculated by dividing profit on ordinary activities after taxation by the weighted average number of shares in issue during the period increased by the effects of all dilutive potential Ordinary Shares (primarily share options). Underlying Earnings per Ordinary Share is calculated by dividing the underlying profit after tax by the weighted average number of shares in issue during the period.

Intangible assets – goodwill

Goodwill, which represents the excess of the fair value of the consideration for subsidiaries and other businesses over the fair values of the net assets acquired and liabilities assumed, is capitalised and stated at historical cost less provisions for impairment.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The business and subsidiaries acquired are generally combined with existing operations in the year of acquisition, or the year thereafter and are therefore only considered to be separate cash-generating units during this time.

Intangible assets – trade names

Intangible trade names are recognised as assets at the fair value of the consideration paid to acquire them and are carried at historical cost less provisions for amortisation and impairment. When acquired as part of a business combination the fair value is calculated by reference to the estimated incremental cash flows expected to arise by virtue of the trade name being well-established.

Amortisation is provided from the date of acquisition so as to write-off the asset on a straight-line basis over the term of its useful life. Where there are indicators that a trade name has an indefinite life then these assets are not amortised but are subject to annual impairment reviews. The factors that indicate an indefinite life of trade names acquired include the fact that the Group is a significant operator in a well-established market with inelastic demand, the conservative nature of the UK funeral industry that acts as a barrier to entry for new trade names, and the Group's track record for actively monitoring and relocating trade names to combat shifting demographics. In addition, when allocating a useful life to acquired trade names, the following matters are considered:

- The strength of the trade name in its local environment which is assessed by reference to relative market share and anticipated profitability;
- The likelihood that market based factors could truncate a trade name's life such as competition and shifting demographics and the Group's ability to combat these;
- The length of time, prior to acquisition, for which trade has been conducted under the name acquired; and
- The likely support the Group will give to the name in its local environment through marketing and promotion, maintaining community awareness etc.

The useful lives of all capitalised trade names are considered to be indefinite and are reviewed on an annual basis.

Intangible assets – non-compete contracts

Non-compete contracts arising from business combinations are capitalised at the fair value, which is calculated as the present value of any consideration paid discounted at the Group's cost of capital.

All costs are amortised over the term of the relevant agreement on a straight-line basis.

Intangible assets – software

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring into use the specific software.

An internally generated intangible asset arising from the Group's development of computer systems (including web-sites) is recognised if and only if the costs are directly associated with the production of identifiable and unique software products, controlled by the Group and it is probable that future economic benefits will flow to the Group. All other costs incurred in research or development are expensed as incurred. Capitalised costs will include, where appropriate, directly attributable payroll costs and a portion of direct overheads. Costs recognised as assets are amortised over their estimated useful lives (three to eight years) using the straight-line method.

Intangible assets – use of third party brand

The Group has a marketing agreement with Age UK Enterprises Limited, giving rights to market pre-arranged funeral plans under the Age UK brand. The value of this right has been recognised as a separate intangible asset.

This asset is being amortised over twenty years on a straight-line basis, recognising that each year's additional marketing activity generates incremental revenues and profits to the Group for at least the following twenty years.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

1 Accounting policies (continued)

Property, plant and equipment

Assets are recorded in the balance sheet at cost less accumulated depreciation and any recognised impairment loss. Cost includes, where appropriate, directly attributable costs incurred in bringing each asset to its present location and condition.

Depreciation is charged (excluding freehold land and assets in the course of construction) so as to write off the cost of assets to their residual value, over their expected useful lives using the straight-line method. The bases and annual depreciation rates in use for the various classes of assets are as follows:

Freehold and long leasehold buildings	2% – 10%
Short leasehold buildings	Over term of lease
Motor vehicles	11% – 20%
Computers	20%
Other plant and equipment	5% – 33%
Fixtures and fittings	15%

Freehold land is not depreciated on the basis that land has an unlimited life. Where the historical cost of land and buildings cannot be split, the Directors have estimated that the historical cost attributable to land is one third of the original cost of acquiring the land and buildings. This estimate is regularly reviewed.

Major renovations of the Group's trading premises and crematory re-linings are depreciated over the remaining life of the related asset or to the estimated date of the next major renovation or cremator re-lining, whichever is sooner. Asset lives and residual values for each class of asset are reviewed annually.

Repairs and renewals

All repairs and renewals are charged to the income statement unless they represent an enhancement to the original asset.

Property, plant and equipment held under leases

When assets are financed by leasing agreements, where the risks and rewards are substantially transferred to the Group, the assets are treated as if they had been purchased outright and the corresponding liability to the lessor is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement so as to achieve a constant rate on the outstanding lease obligation.

All other leases are 'operating leases' and the relevant annual rentals are charged to the income statement.

Profit on sale of fixed assets

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within profit on sale of fixed assets in the statement of comprehensive income.

Borrowing costs

If the construction phase of property, plant or equipment extends over a long period, the interest incurred on borrowed capital up to the date of completion is capitalised as part of cost of construction in accordance with IAS 23 (Borrowing Costs).

Impairment of assets

The carrying values of intangible assets and property, plant and equipment are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that have an indefinite useful life (e.g. goodwill) are not subject to amortisation and are tested annually for impairment.

Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. For goodwill this is considered at a business segment level as that is the level at which the return on assets acquired is monitored. For other intangibles (principally trade names) this is considered at a regional level for each business segment as this is the level where cash inflows are largely independent. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future discounted cash flows of the cash-generating unit are estimated, based on latest management expectations for the following year and an annual growth rate in subsequent years. These cash flows are discounted at rates that management estimate to be the risk affected average cost of capital for the particular segment and compared to the carrying value of the relevant asset. Any impairment in the value of an asset below its carrying value is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised.

Inventories

Inventories, which comprise funeral supplies and monumental masonry, are stated at the lower of cost and fair value less costs to sell. Cost includes all directly attributable costs incurred in bringing each product to its present location and condition. Fair value less costs to sell is based on estimated selling price less any further costs expected to be incurred in completion and sale.

Taxation

The tax charge for the period includes the charge for tax currently payable and deferred tax. The current tax charge represents the estimated amount due that arises from the operations of the Group in the period and after making adjustments to estimates in respect of prior years.

Deferred tax is recognised in respect of all differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except where the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised where the carrying value of an asset is greater than its associated tax basis or where the carrying value of a liability is less than its associated tax basis. Deferred tax is provided for any differences that exist between the tax base and accounting base of intangibles arising from a business combination that does not involve the acquisition of a subsidiary.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the deductible temporary difference can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted, by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions

The cost of defined contribution retirement schemes is charged as an expense as the costs become payable. Any difference between the payments and the charge is recognised as a short term asset or liability.

For defined benefit retirement schemes, the cost of providing the benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date.

Past service cost is recognised immediately to the extent the benefits are vested, and otherwise are amortised on a straight-line basis over the average period until the benefits become vested. The current service cost and the recognised element of any past service cost are presented within operating profit. The expected return on plan assets less the interest arising on the pension liabilities is presented within net finance costs. Actuarial gains and losses are recognised in full in the period in which they occur, outside of the consolidated income statement and presented in the consolidated statement of comprehensive income.

The expected return on plan assets reflects the estimate made by management of the long term yields that will arise from the specific assets held within the pension plan. The rate of return is determined by identifying an appropriate rate of return for each class of asset held in conjunction with the Group's professional adviser. The retirement benefit net asset recognised in the balance sheet represents the fair value of any relevant scheme assets net of the present value of the defined benefit obligation as adjusted for unrecognised past service cost. The discount rate applied in arriving at the present value represents yields on high quality corporate bonds in a similar economic environment with lives similar to the maturity of the pension liabilities.

Provisions

Provisions are recognised when the Company or the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

Provisions (other than deferred tax) are discounted where the present value of the provision is materially different to the undiscounted value. The unwinding of discounts is included within finance costs.

Employee share trust

The assets of the employee share trust are held by a separate limited company, of which the Directors consider that Dignity plc has de facto control. In accordance with IFRS 2, share-based payment, the trust's assets and liabilities are recognised in the Group's balance sheet within share capital and reserves.

Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the financial statements when paid.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

1 Accounting policies (continued)

Foreign currency

Foreign currency transactions recognised in the income statement are translated into Sterling at the exchange rate on the date the transaction took place.

Financial instruments

Borrowings

All borrowings are stated at the fair value of consideration received after deduction of transaction costs. The transaction costs, interest payable and premium on debt finance are charged/credited to the income statement, as finance costs/income, on a constant-yield basis over the term of the borrowings, or over a shorter period where it is more likely than not that the lender will require earlier repayment using the effective interest method.

Early termination costs on borrowings

Premiums and discounts arising on the early repayment of borrowings are written-off to the income statement as incurred.

Interest rate swaps

The Group currently uses several types of financial instruments as part of an overall interest rate risk management strategy. It does not enter into financial instruments for trading purposes. Interest rate risk associated with net debt is managed by using a combination of fixed and floating rate borrowings and financial liabilities. The cash flows from, and losses arising on terminations of, these contracts are recognised as cash flows from operating activities. See note 16(e) for further information.

Trade receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is established based on historical experience. When a trade receivable is not collectable it is written-off against the allowance account. Subsequent recovery of amounts previously written-off are credited against administration expenses in the income statement.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct transaction costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions in certain circumstances that affect reported amounts. The most sensitive estimates affecting the financial statements are in the areas of assessing the recoverability of receivables, post-retirement benefits, the recognition and measurement of goodwill and other intangible assets.

Provision for doubtful trade receivables

Provision is made against accounts that in the estimation of management may be impaired. Within each division, assessment is made of the recoverability of trade receivables based on a range of factors including the age of the receivable and the type of services provided. The provision is assessed monthly against actual experience of irrecoverable accounts and adjusted if appropriate.

Pensions

The Group operates a defined benefit pension scheme that is accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the financial statements. These actuarial assumptions include discount rates, assumed rates of return, salary increases and mortality rates.

While management believes that the actuarial assumptions are appropriate, any significant changes to those used would affect the balance sheet and income statement. The Group considers that the most significant assumptions are the discount rate and the inflation rate. See note 28 for further details.

Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1 "Impairment of assets". The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Actual outcomes could vary from those calculated. See note 9 for further details.

Other intangible assets

The decision process to ascertain whether trade names will have an indefinite life are detailed in note 1 "Intangible assets – trade names". These assets with an indefinite life are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates. See note 9 for further details.

Standards, amendments and interpretations effective in 2010

IFRS 2 (amendment), Group cash-settled share-based payment transaction, effective 1 January 2010. In addition to incorporating IFRIC 8, Scope of IFRS 2, and IFRIC 11, IFRS 2 – Group and treasury share transactions, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance has not had a material impact on the Group's financial statements.

IFRS 3 (revised), Business combinations, effective 1 January 2010. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, any subsequent fair value adjustments are to be recorded in the period of acquisition, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value which the Group has adopted, or at the non-controlling interest's proportionate share of the acquiree's net assets. The Group has expensed all acquisition-related costs.

IFRS 5 (amendment), Non-current assets held-for-sale and discontinued operations, effective 1 January 2010. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal results in loss of control. This standard has no impact on the Group's financial statements.

IAS 1 (amendment), Presentation of financial statements, effective 1 January 2010. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This standard has no impact the Group's financial statements.

IAS 27 (revised), Consolidated and separate financial statements', effective 1 July 2010. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. This standard has no impact on the Group's financial statements.

IAS 36 (amendment), Impairment of assets, effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). This has no impact on the Group's financial statements.

IAS 38 (amendment), Intangible assets, effective 1 July 2009. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. This has not had a material impact on the Group's financial statements.

IAS 39 (amendment), Financial Instruments: Recognition and measurement on eligible hedged items, effective 1 July 2009. This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. This has no impact on the Group's financial statements.

IFRIC 9, Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement, effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This has no impact on the Group's financial statements.

IFRIC 15, Agreements for construction of real estates, effective 1 January 2010. This interpretation clarifies which standard (IAS 18, Revenue, or IAS 11, 'Construction contracts') should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions. Entities that have previously recognised revenue from residential real estate sales under IAS 11 will be the most significantly affected and will probably be required to apply IAS 18. This has no impact on the Group.

IFRIC 16, Hedges of a net investment in a foreign operation effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. This has no impact on the Group.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

1 Accounting policies (continued)

IFRIC 17, Distribution of non-cash assets to owners, effective 1 July 2010. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. This standard has no impact on the Group's financial statements.

IFRIC 18, Transfers of assets from customers, effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This has no impact on the Group's financial statements.

Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The effective dates vary standard by standard but most are effective 1 January 2010. The only improvement applicable to the Group in 2010 is IAS 17, Leases. This improvement has no impact on the Group's financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

The following interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 31 December 2010 or later periods but which the Group has not early adopted:

IFRS 9 Financial instruments (to replace) IAS 39, Financial instruments: Recognition and measurement. This standard introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for financial assets. The standard is not applicable until 1 January 2013 subject to endorsement by the EU. The impact of this standard is currently being assessed.

IAS 24 (revised), Related party disclosures effective 1 January 2011, subject to endorsement by the EU. The revised standard clarifies and simplifies the definition of a related party. When the revised standard is applied the Group and the parent will need to disclose any transactions between its subsidiaries and its associates. This is not expected to have a material impact on the Group.

IAS 32 (amendment), Financial instruments: Presentation on classification or rights issues, effective 1 February 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. This amendment has no impact on the Group's financial statements.

IFRIC 19, Extinguishing financial liabilities with equity instruments, effective 1 July 2010. The interpretation clarifies the accounting by an entity when the term of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This is not expected to have any impact on the Group.

Prepayments of a minimum funding requirement, (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, IAS 19, the limit on a defined benefit asset, minimum funding requirements and their interaction. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendments are effective for periods beginning 1 January 2011. This is not expected to have an impact on the Group.

2 Financial risk management

The Group finances its operations by a mixture of shareholders' funds, Secured Notes and bank borrowings. This approach seeks to minimise financing costs and generate optimum shareholder value through efficient leveraging of the Group's balance sheet, which is made possible by the stable and predictable cash generative nature of the business.

It is not the Group's policy to actively trade in derivatives.

Market risk

Currency risk

All the Group's financial assets and liabilities are denominated in Sterling. The Group purchases minimal amounts from overseas. Accordingly, exposure to currency fluctuations are not significant and therefore not actively managed.

Interest rate risk and other price risk

The Group's main borrowings consist of Class A and B Secured Notes, which are at fixed interest rates, resulting in a predetermined repayment profile. The fair value of these financial instruments is based on underlying gilt prices and yield spreads based on the market's current view of the risk profile of the Secured Notes. Consequently, the fair value of these instruments will fluctuate. Fair values are not relevant to the Group unless it was to change its funding strategy and repay the Secured Notes early.

The Group also has a £10 million Crematoria Acquisition Facility ('the Crematoria Acquisition Facility'). £7.4 million carries interest at 5.59 per cent per annum. The remaining £2.6 million carries interest at a rate relative to three month LIBOR, with such rate being capped at 5.59 per cent. Consequently, the Group carries limited risk to increases in LIBOR on this facility. The Crematoria Acquisition Facility is fully drawn and will be repayable in one payment in November 2013.

The Group has significant cash balances that are held by institutions rated at least A-1 by Standard and Poors. These balances earn interest by reference to the Bank of England base rate. If base rates reduced by one per cent at the beginning of 2010 then the Group would receive £0.1 million less interest income on an annualised basis for each £10 million held.

None of the Group's other financial liabilities or financial assets carry any significant interest rate risk.

Credit risk

Trade receivables are the main source of credit risk to the Group. However, this risk is minimised as much as possible through well-established credit control procedures. Quantitative disclosures regarding the aging of these receivables are included in note 21(c).

Liquidity risk

The Group manages its liquidity risk by maintaining sufficient cash reserves, committed undrawn borrowing facilities and regular monitoring and forecasting of cash balances. In addition, the Group is required under the terms of its secured borrowings to maintain a precisely defined EBITDA to total debt service ratio of at least 1.5 times. This ratio was determined when raising the debt as being sufficient to ensure all borrowings could be repaid. This covenant test has been satisfied on each quarterly testing date in the period. At 31 December 2010 the actual ratio was 2.56 times (2009: 2.60 times).

Capital risk management

The Group's objective under managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, repay holders of Class A and B Secured Notes and benefit other shareholders. It also aims to reduce its cost of capital by maintaining an optimal capital structure. The Group's principal source of long term debt financing is the Class A and B Secured Notes, rated A and BBB respectively.

The Group monitors its capital structure based on gross debt to EBITDA.

In order to achieve these objectives, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or issue further Class A and B Secured Notes. During the period, the Group issued further Secured Notes, undertook a Return of Value and consolidated its shares. This is discussed further in notes 21 and 22.

During the period, the Group achieved its covenants under the terms of the Group's secured borrowings (see 'Liquidity risk' above).

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

3 Revenue and segmental analysis

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker of the Group has been identified as the four Executive Directors. The Group has three reporting segments, funeral services, crematoria and pre-arranged funeral plans. The Group also reports central overheads, which comprise unallocated central expenses.

Funeral services represent the sale of funerals and memorials at the time of need.

Crematoria represent the performance of cremations at the time of need, together with the sale of memorials.

Pre-arranged funeral plans represent the sale of funerals in advance to customers wishing to make their own funeral arrangements, and the marketing and administration costs associated with making such sales.

Substantially all Group revenue is derived from, and substantially all of the Group's net assets are located in, the United Kingdom and Channel Islands. Overseas transactions are not material.

Underlying profit comprises profit before profit on sale of fixed assets, transaction costs and exceptional items. Underlying operating profit is included as it is felt that adjusting operating profit for profit on sale of fixed assets, transaction costs and exceptional items provides a useful indication of the Group's performance.

The revenue and operating profit (which includes Recoveries within pre-arranged funeral plans of £1.5 million in both periods and £0.3 million dividend from a fixed asset investment received (2009: £nil)), by segment, was as follows:

	Revenue £m	Underlying operating profit before depreciation and amortisation £m	Depreciation and amortisation £m	Underlying operating profit/(loss) £m	Profit on sale of fixed assets, transaction costs and exceptional items £m	Operating profit/(loss) £m
53 week period ended 31 December 2010						
Funeral services	143.3	56.0	(6.7)	49.3	0.2	49.5
Crematoria	37.5	22.0	(2.1)	19.9	–	19.9
Pre-arranged funeral plans	18.3	4.4	(0.1)	4.3	–	4.3
Central overheads	–	(12.2)	(0.3)	(12.5)	(0.8)	(13.3)
Group	199.1	70.2	(9.2)	61.0	(0.6)	60.4
Finance costs				(22.5)	–	(22.5)
Finance income				1.9	–	1.9
Profit before tax				40.4	(0.6)	39.8
Taxation – continuing activities				(11.7)	0.2	(11.5)
Taxation – exceptional				–	0.7	0.7
Taxation				(11.7)	0.9	(10.8)
Underlying earnings for the period				28.7		
Total other items					0.3	
Profit after taxation						29.0
Earnings per share for profit attributable to equity shareholders (pence)						
– Basic and diluted				46.4p		46.9p

3 Revenue and segmental analysis (continued)

The segment assets and liabilities were as follows:

As at 31 December 2010	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Segment assets	247.1	101.2	14.0	3.4	365.7
Unallocated assets:					
Cash and cash equivalents					48.1
Total assets					413.8
Segment liabilities	(22.8)	(4.7)	(5.2)	(7.2)	(39.9)
Unallocated liabilities:					
Borrowings – excluding finance leases					(346.5)
Accrued interest					(0.1)
Corporation tax					(4.8)
Deferred tax					(27.3)
Total liabilities					(418.6)
Other segment items:					
Additions to non-current assets (other than financial instruments and deferred tax)	14.5	17.8	–	1.3	33.6
Depreciation (note 10)	6.7	2.1	–	0.2	9.0
Amortisation (note 9)	–	–	–	0.2	0.2
Impairment of trade receivables (note 21 (c))	1.3	–	–	–	1.3
Other non cash expenses (note 23)	–	–	–	1.0	1.0
Profit on sale of fixed assets	0.5	–	–	–	0.5

The revenue and operating profit, by segment, was as follows:

52 week period ended 25 December 2009	Revenue £m	Underlying operating profit before depreciation and amortisation £m	Depreciation and amortisation £m	Underlying operating profit/(loss) £m	Profit on sale of fixed assets and exceptional tax credit £m	Operating profit/(loss) £m
Funeral services	138.5	53.4	(6.1)	47.3	1.1	48.4
Crematoria	34.4	19.4	(1.8)	17.6	–	17.6
Pre-arranged funeral plans	11.8	3.5	–	3.5	–	3.5
Central overheads	–	(11.4)	(0.6)	(12.0)	–	(12.0)
Group	184.7	64.9	(8.5)	56.4	1.1	57.5
Finance costs				(21.6)	–	(21.6)
Finance income				1.6	–	1.6
Profit before tax				36.4	1.1	37.5
Taxation				(10.6)	(0.3)	(10.9)
Underlying earnings for the period				25.8		
Total other items					0.8	
Profit after taxation						26.6

Earnings per share for profit attributable to equity shareholders (pence)

– Basic and diluted

40.5p 41.8p

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

3 Revenue and segmental analysis (continued)

The segment assets and liabilities were as follows:

As at 25 December 2009	Funeral Services (restated) £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group (restated) £m
Segment assets	236.4	84.1	13.7	2.2	336.4
Unallocated assets:					
Financial assets – loans and receivables					0.1
Cash and cash equivalents					45.8
Total assets					382.3
Segment liabilities	(21.8)	(3.4)	(2.8)	(4.5)	(32.5)
Unallocated liabilities:					
Borrowings – excluding finance leases					(274.3)
Accrued interest					(9.7)
Corporation tax					(4.3)
Deferred tax					(26.0)
Total liabilities					(346.8)
Other segment items:					
Additions to non-current assets (other than financial instruments and deferred tax)	12.7	18.0	–	0.5	31.2
Depreciation (note 10)	6.1	1.8	–	0.4	8.3
Amortisation (note 9)	–	–	–	0.2	0.2
Impairment of trade receivables (note 21(c))	1.1	–	–	–	1.1
Other non cash expenses (note 23)	–	–	–	1.0	1.0
Profit on sale of fixed assets	1.1	–	–	–	1.1

4 Net finance costs

	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Finance costs		
Class A and B Secured Notes – issued April 2003	13.8	14.0
Class A and B Secured Notes – issued February 2006	5.0	5.1
Class A and B Secured Notes – issued September 2010	1.3	–
Amortisation of issue costs – issued April 2003	1.0	1.0
Amortisation of issue costs – issued February 2006	0.2	0.3
Amortisation of issue costs – issued September 2010	0.1	–
Crematoria Acquisition Facility	0.5	0.4
Other loans	0.2	0.1
Interest payable on finance leases	0.1	0.1
Unwinding of discounts	0.5	0.6
Finance costs	22.7	21.6
Less: interest capitalised	(0.2)	–
Net finance costs	22.5	21.6
Finance income		
Bank deposits	(0.4)	(0.5)
Release of premium on Secured Notes – issued February 2006	(0.8)	(0.8)
Release of premium on Secured Notes – issued September 2010	(0.3)	–
Net finance income on retirement benefit obligations (note 28)	(0.4)	(0.3)
Finance income	(1.9)	(1.6)
Net finance costs	20.6	20.0

5 Profit before tax

	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Analysis by nature		
The following items have been included in arriving at profit before tax:		
Staff costs (note 27)	64.7	62.9
Cost of inventories recognised as an expense (included in cost of sales) (note 13)	12.7	12.6
Depreciation of property, plant and equipment – owned assets (note 10)	9.0	8.3
Amortisation of intangible assets (included in administrative expenses) (note 9)	0.2	0.2
Operating lease rentals – property	6.4	5.8
Transaction costs	1.1	–
Recoveries (included within other operating income)	(1.5)	(1.5)
Trade receivables impairment (included in administrative expenses) (note 21(c))	1.3	1.1

Services provided by the Group's auditor and its associates:

Fees payable to the Company's auditor for the audit of parent company and consolidated financial statements	0.1	0.2
Fees payable to the Company's auditor and its associates for other services:		
– The audit of Company's subsidiaries pursuant to legislation	0.1	–
– Other services pursuant to legislation	–	–
– Tax services	0.1	0.1
– Fees in relation to issue of Secured Notes	1.4	–
	1.7	0.3

The transaction costs comprise £0.8 million in respect of the Return of Value and £0.3 million of acquisition expenses. The impact on taxation of these is a credit of £0.3 million (2009: £nil).

During 2010, the Group paid fees of £1.4 million to the Group's auditor in connection with the issue of Secured Notes and redemption of B and C Shares. Costs of £0.2 million have been expensed and £1.2 million has been deferred in accordance with IAS 39.

6 Taxation

	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Analysis of charge in the period		
Current tax – current period	11.2	10.3
Adjustments for prior period	(0.3)	(0.3)
	10.9	10.0
Deferred tax – current period	0.4	0.7
Adjustments for prior period (note 20)	0.2	0.2
Exceptional adjustment for rate change – 28% to 27%	(0.7)	–
	(0.1)	0.9
Taxation	10.8	10.9

All tax relates to continuing operations.

	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Tax on items charged to equity		
Deferred tax credit on actuarial losses on retirement benefit obligations	(0.2)	(0.5)
Corporation tax credit on actuarial losses on retirement benefit obligations	(0.4)	(0.8)
Corporation tax relief relating to maturity of option schemes	(0.1)	(0.2)
Adjustment for rate change – 28% to 27%	(0.1)	–
	(0.8)	(1.5)

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

6 Taxation (continued)

	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Total tax charge		
Total current tax charge	10.4	9.0
Total deferred tax (credit)/charge	(0.4)	0.4

The taxation charge in the period is lower (2009: higher) than the standard rate of corporation tax in the UK (28 per cent). The differences are explained below:

	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Profit before taxation	39.8	37.5
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%)	11.1	10.5
Effects of:		
Adjustments in respect of prior period	(0.1)	(0.1)
Exceptional adjustment in respect of closing deferred tax rate change – 28% to 27%	(0.7)	–
Expenses not deductible for tax purposes	0.5	0.5
Total taxation	10.8	10.9

Under IFRS the tax rate is lower (2009: higher) than the standard UK tax rate of 28 per cent due to combination of the impact of disallowable trading expenses and expenditure on the Group's premises that does not attract any deductions for tax purposes. On 20 July 2010, legislation was passed confirming that the rate of Corporation Tax would reduce from 28 per cent to 27 per cent from 1 April 2011. As a result, the Group recognised exceptional tax income of £0.7 million through its income statement to reflect the one off reduction in the period of the Group's deferred tax position.

The Group anticipates its effective tax rate will transition to 28.5 per cent in the 2011 financial period.

Further rate changes are anticipated, if these are subsequently enacted in the form expected then the corporation tax rate will reduce by a further 1 per cent per annum until 2014 when it will be 24 per cent. The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements.

Each percentage point reduction in corporation tax rate is expected to reduce the deferred tax liability by approximately £1 million. These impacts will be recognised in the period in which substantive enactment occurs.

7 Dividends

	53 week period ended 31 December 2010 £m	52 week period ended 25 December 2009 £m
Final dividend paid: 8.07p per Ordinary Share (2009: 7.34p)	5.1	4.7
Interim dividend paid: nil p per Ordinary Share (2009: 4.03p)	–	2.5
Dividend on Ordinary Shares (excluding special dividend)	5.1	7.2
Special dividend relating to Return of Value: £1 per C Share (2009: n/a)	44.6	–

On 15 October 2010, the Group returned a total of £63.9 million to Ordinary Shareholders equating to £1 for each Ordinary Share held following the issue of further Secured Notes. Ordinary Shareholders were able to elect to receive this Return of Value as either:

- A return of capital (the 'Capital Option');
- A special dividend (the 'Special Dividend Option'); or
- A deferred income option (the 'Deferred Dividend Option').

Ordinary Shareholders elected to receive £19.3 million as a return of capital, £44.6 million as a special dividend including £0.1 million as deferred income.

7 Dividends (continued)

The interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period. No interim dividend was paid in the year as it was included within the Return of Value. The planned interim dividend of 4.43 pence per share which was due to be paid on 29 October 2010 was declared but cancelled following the decision to return capital to shareholders.

The final dividend represents the final dividend that was approved and paid in the period relating to the earnings generated in the previous period.

Consequently, total dividends recognised in the period were £49.7 million, 108.07 pence per share (2009: £7.2 million, 11.37 pence per share).

A final dividend of 8.88 pence per share, in respect of 2010, has been proposed by the Board. This will be paid on 24 June 2011 provided that approval is gained from shareholders at the Annual General Meeting on 9 June 2011 and will be paid to shareholders on the register at close of business on 27 May 2011.

8 Earnings per share

The calculation of basic earnings per Ordinary Share has been based on the profit for the relevant period.

For diluted earnings per Ordinary Share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares.

The Group has two classes of potentially dilutive Ordinary Shares being those share options granted to employees under the Group's SAYE Scheme and the contingently issuable shares under the Group's LTIP Schemes. At the balance sheet date, the performance criteria for the vesting of the awards under the LTIP Schemes had not been met and these contingently issuable shares have been excluded from the diluted EPS calculations.

The Board believes that profit on ordinary activities before profit on sale of fixed assets, transaction costs, exceptional items and after taxation is a useful indication of the Group's performance, as it excludes significant non-recurring items. This reporting measure is defined as 'Underlying profit after taxation'.

Accordingly, the Board believes that earnings per share calculated by reference to this underlying profit after taxation is also a useful indicator of financial performance.

On 8 October, shareholders approved a share capital consolidation together with a Special Dividend of £1 per Ordinary Share. The overall effect of the transaction was that of a share repurchase at fair value. The reduction in the number of Ordinary Shares is the result of a corresponding reduction in resources.

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below:

	Earnings £m	Weighted average number of shares millions	Per share amount pence
53 week period ended 31 December 2010			
Profit attributable to shareholders – Basic and diluted EPS	29.0	61.8	46.9
Deduct: Exceptional items, profit on sale of fixed assets and transaction costs (net of taxation)	(0.3)		
Underlying profit after taxation – Basic EPS	28.7	61.8	46.4
52 week period ended 25 December 2009			
Profit attributable to shareholders – Basic and diluted EPS	26.6	63.7	41.8
Deduct: Profit on sale of fixed assets (net of taxation)	(0.8)		
Underlying profit after taxation – Basic EPS	25.8	63.7	40.5

In 2010 and 2009, the potential issue of new shares pursuant to the Group's share option plans would have no impact on the earnings per share.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

9 Goodwill and other intangible assets

	Trade names £m	Use of third party brand name £m	Software £m	Non-compete agreements £m	Sub-total £m	Goodwill £m	Total £m
Cost							
At 26 December 2008	30.3	3.2	3.9	0.2	37.6	129.8	167.4
Acquisition of subsidiaries and other businesses	2.8	–	–	–	2.8	9.6	12.4
Restatement under IFRS 3	–	–	–	–	–	0.3	0.3
At 25 December 2009 (restated)	33.1	3.2	3.9	0.2	40.4	139.7	180.1
Additions	–	–	0.1	–	0.1	–	0.1
Acquisition of subsidiaries and other businesses (note 26(a))	3.7	–	–	–	3.7	3.2	6.9
At 31 December 2010	36.8	3.2	4.0	0.2	44.2	142.9	187.1
Accumulated amortisation							
At 26 December 2008	–	(0.4)	(3.8)	(0.1)	(4.3)	–	(4.3)
Amortisation charge	–	(0.1)	–	(0.1)	(0.2)	–	(0.2)
At 25 December 2009	–	(0.5)	(3.8)	(0.2)	(4.5)	–	(4.5)
Amortisation charge	–	(0.1)	(0.1)	–	(0.2)	–	(0.2)
At 31 December 2010	–	(0.6)	(3.9)	(0.2)	(4.7)	–	(4.7)
Net book amount at 31 December 2010	36.8	2.6	0.1	–	39.5	142.9	182.4
Net book amount at 25 December 2009 (restated)	33.1	2.7	0.1	–	35.9	139.7	175.6

Impairment tests for goodwill and other intangible assets

As described in note 1, goodwill and other intangible assets with an indefinite life are subject to annual impairment tests in accordance with IAS 36, Impairment of Assets.

For the purpose of impairment testing:

- (i) Goodwill is tested at a business segment level.
- (ii) Other intangible assets are allocated to the Group's cash-generating units ('CGUs') on a regional basis.

The segmental allocation is shown below:

Amortisation of £0.2 million (2009: £0.2 million) is included within administrative expenses in the income statement.

	Intangible assets £m	Goodwill £m	Total £m
At 31 December 2010			
Funeral services	36.8	97.9	134.7
Crematoria	–	40.3	40.3
Pre-arranged funeral plans	2.6	4.7	7.3
Head office	0.1	–	0.1
	39.5	142.9	182.4
At 25 December 2009 (restated)			
Funeral services	33.1	94.7	127.8
Crematoria	–	40.3	40.3
Pre-arranged funeral plans	2.7	4.7	7.4
Head office	0.1	–	0.1
	35.9	139.7	175.6

The recoverable amount of a CGU is based on a value-in-use calculation. However, the assets allocated to head office are tested for impairment by reference to the Group as a whole.

9 Goodwill and other intangible assets (continued)

The value-in-use calculations use cash flow projections based on the latest management expectations. Key assumptions used to produce the annual budget are the estimated UK death rates (based on historical death rates supplied by ONS), anticipated market share (based on actual experience) and anticipated price increases. Cash flows beyond the initial 12 month period are extrapolated using a growth rate of 2.25 per cent (2009: 2.25 per cent). The cash flows are discounted at a pre-tax rate of 9.2 per cent (2009: 9.2 per cent). This rate is used to analyse each CGU because they all have similar risk profiles. Based on these calculations, the discount rate would have to increase to at least 19 per cent (2009: 22 per cent), or the growth rate would have to reduce to at least minus 9 per cent (2009: minus 11 per cent) to result in any impairment of goodwill, intangible assets, property, plant and equipment and working capital.

On the basis of the above, the review indicated that no impairment arose in any segment (2009: £nil).

10 Property, plant and equipment

	Freehold land and buildings £m	Leasehold buildings £m	Plant, machinery, fixtures and fittings £m	Motor vehicles £m	Property, plant and equipment Total £m	Investment properties £m	Total £m
Cost							
At 26 December 2008	64.9	17.7	19.5	38.3	140.4	9.6	150.0
Additions	2.2	–	8.6	3.6	14.4	3.1	17.5
Acquisition of subsidiaries and other businesses	0.2	–	1.8	0.1	2.1	–	2.1
Disposals	(0.6)	–	(0.8)	(2.0)	(3.4)	–	(3.4)
Reclassification	7.1	5.7	(4.5)	–	8.3	(12.7)	(4.4)
At 25 December 2009	73.8	23.4	24.6	40.0	161.8	–	161.8
Additions	0.6	2.7	18.5	4.0	25.8	–	25.8
Acquisition of subsidiaries and other businesses (note 26(a))	0.2	–	–	0.4	0.6	–	0.6
Disposals	(0.2)	(0.1)	(1.1)	(1.8)	(3.2)	–	(3.2)
Reclassification	4.6	2.7	(7.3)	–	–	–	–
At 31 December 2010	79.0	28.7	34.7	42.6	185.0	–	185.0
Accumulated depreciation							
At 26 December 2008	(7.4)	(6.5)	(9.2)	(16.0)	(39.1)	–	(39.1)
Depreciation charge	(1.7)	(1.0)	(2.3)	(3.3)	(8.3)	–	(8.3)
Disposals	0.1	–	0.8	1.5	2.4	–	2.4
At 25 December 2009	(9.0)	(7.5)	(10.7)	(17.8)	(45.0)	–	(45.0)
Depreciation charge	(1.9)	(1.0)	(2.6)	(3.5)	(9.0)	–	(9.0)
Disposals	–	0.1	1.1	1.4	2.6	–	2.6
At 31 December 2010	(10.9)	(8.4)	(12.2)	(19.9)	(51.4)	–	(51.4)
Net book amount at 31 December 2010	68.1	20.3	22.5	22.7	133.6	–	133.6
Net book amount at 25 December 2009	64.8	15.9	13.9	22.2	116.8	–	116.8

Depreciation expense of £3.5 million (2009: £3.3 million) is included within cost of sales and £5.5 million (2009: £5.0 million) is included within administrative expenses.

Included within plant, machinery, fixtures and fittings net book value is £8.9 million (2009: £4.1 million) relating to assets held in the course of construction.

In 2010, borrowing costs of £0.2 million (2009: n/a) were capitalised as components of the cost of construction of qualifying assets, applying an annualised average capitalisation rate of 6.7 per cent (2009: n/a).

Details of any securities over assets are disclosed in note 30.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

10 Property, plant and equipment (continued)

Additional headings have been included in the Consolidated Statement of Cash Flows for property, plant and equipment in order to provide additional information on the different types of expenditure that the Group has spent during the year.

Assets held under finance leases, which relate solely to leasehold land and buildings, have the following net book amount:

	31 December 2010 £m	25 December 2009 £m
Cost	1.0	1.0
Accumulated depreciation	(0.3)	(0.3)
Net book amount	0.7	0.7

The Group had capital expenditure authorised by the Board and contracted for at the balance sheet date of £9.3 million (2009: £2.8 million). This includes amounts in respect of the crematoria being developed at Somerset, Worcestershire and Weston-super-Mare.

11 Non-current financial and other assets

	Note	31 December 2010 £m	25 December 2009 £m
Prepayments	(a)	10.2	8.2
Deferred commissions	(b)	1.8	1.1
Other receivables		–	0.1
		12.0	9.4

(a) Prepayments

This balance represents the amounts paid to acquire the long leasehold interest in land at certain of the Group's properties. Management consider that leases greater than fifty years at inception are long leases. The balance is expensed on a straight-line basis over the term of the relevant lease. The leases expire at various times over the next thirty to nine hundred years.

(b) Deferred commissions

The Group is the named beneficiary on a number of life assurance products sold by third party insurance companies.

A commission is paid when the policy is charged to the Group. As this commission is fully refundable if the Group does not perform the funeral for any reason, it is carried as a debtor and expensed when the funeral is performed.

12 Investments

A list of the trading entities included within the financial information are included in note C2 to the Company's financial statements.

13 Inventories

	31 December 2010 £m	25 December 2009 £m
Materials	0.9	0.9
Finished goods	4.3	3.2
	5.2	4.1

The cost of inventories recognised within cost of sales amounted to £12.7 million (2009: £12.6 million).

There were no inventory write-downs in either period.

14 Trade and other receivables

	31 December 2010 £m	25 December 2009 £m
Trade receivables	19.6	17.1
Less: provision for impairment (note 21(c))	(3.7)	(3.6)
Net trade receivables	15.9	13.5
Receivables due from related parties (note 31)	2.4	3.6
Prepayments and accrued income	3.7	2.5
Other receivables	2.0	1.9
	24.0	21.5

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of normal provision for doubtful recoverables. For further details of the trade receivables past due and impaired refer to note 21(c).

Due to the short term nature of these balances, the carrying value is considered to be their fair value.

15 Cash and cash equivalents

	Note	31 December 2010 £m	25 December 2009 £m
Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents		46.6	31.8
Recoveries: pre-arranged funeral plans	(a)	1.5	1.5
Amounts set aside for debt service payments	(b)	–	12.5
Cash and cash equivalents as reported in the balance sheet		48.1	45.8

- (a) Recoveries may not be used for one year following receipt and therefore do not meet the definition of cash and cash equivalents in IAS 7, Cash Flow Statements.
- (b) This amount was transferred to restricted bank accounts which could only be used for the payment of the interest and principal on the Secured Notes, the repayment of liabilities due on the Group's interest rate swaps (see note 16(e)) and commitment fees due on its undrawn borrowing facilities (see note 21(d)) and for no other purpose.

This amount does not meet the definition of cash and cash equivalents in IAS 7, Cash Flow Statements. Whilst not applicable in 2010, in 2009, this amount was used to pay these respective parties on 31 December 2009. Of this amount £9.9 million is shown within the cash flow statement as 'Payments to restricted bank accounts for finance costs' and £2.6 million is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

16 Financial liabilities

Current	Note	31 December 2010 £m	25 December 2009 £m
Class A Secured Notes – issued April 2003	(a)	3.2	4.6
Class A Secured Notes – issued February 2006	(b)	1.5	2.1
Class A Secured Notes – issued September 2010	(c)	1.4	–
Premium on Secured Notes – issued February 2006	(b)	0.7	0.8
Premium on Secured Notes – issued September 2010	(c)	1.2	–
Other current financial liabilities	(e)	0.7	1.0
	(g)	8.7	8.5
Non-current			
Class A and B Secured Notes – issued April 2003	(a)	171.9	175.1
Class A and B Secured Notes – issued February 2006	(b)	64.1	65.7
Class A and B Secured Notes – issued September 2010	(c)	65.3	–
Premium on Secured Notes – issued February 2006	(b)	9.5	10.3
Premium on Secured Notes – issued September 2010	(c)	12.4	–
Finance lease obligations	(d)	0.7	0.8
Other non-current financial liabilities	(e)	4.7	4.9
Crematoria Acquisition Facility	(f)	9.9	9.8
		338.5	266.6

(a) Class A and B Secured Notes – issued April 2003

On 11 April 2003, Dignity Finance PLC issued £110,000,000 Class A Secured Notes (the 'A notes') and £100,000,000 Class B Secured Notes (the 'B notes').

The A notes carry interest at 6.31 per cent, payable half yearly in arrears. The A notes are repayable in instalments ending in December 2023. The transaction costs incurred on issue of the A notes totalled £9.8 million. The B notes carry interest at 8.151 per cent, payable half yearly in arrears. The B notes are repayable in instalments ending in December 2030. The transaction costs incurred on issue of the B notes totalled £8.9 million.

The principal outstanding on the Secured Notes and related issue costs have been presented on a net basis in the table above. Both the A notes and the B notes are secured by first ranking security in respect of the undertakings and assets of Dignity (2002) Limited and its subsidiaries.

At 31 December 2010, £86.0 million (2009: £91.6 million) of the principal of the A notes and £100.0 million (2009: £100.0 million) of the principal of the B notes was outstanding.

At 31 December 2010, £4.9 million (2009: £5.6 million) and £6.0 million (2009: £6.3 million) of the transaction costs in respect of the A notes and the B notes respectively remain unamortised.

(b) Class A and B Secured Notes – issued February 2006

On 21 February 2006, Dignity Finance PLC issued £45,550,000 Class A Secured Notes (the 'Further A notes') and £32,500,000 Class B Secured Notes (the 'Further B notes').

The Further A notes carry interest at 6.31 per cent, payable half yearly in arrears. The Further A notes are repayable in instalments ending in December 2023. The transaction costs incurred on issue of the Further A notes totalled £1.9 million. The Further B notes carry interest at 8.151 per cent, payable half yearly in arrears. The Further B notes are repayable in instalments ending in December 2030. The transaction costs incurred on issue of the Further B notes totalled £1.8 million. The principal outstanding on the Secured Notes and related issue costs have been presented on a net basis in the table above. Both the Further A notes and the Further B notes are secured by first ranking security in respect of the undertakings and assets of Dignity (2002) Limited and its subsidiaries.

At 31 December 2010, £35.6 million (2009: £38.0 million) of the principal of the Further A notes and £32.5 million (2009: £32.5 million) of the principal of the Further B notes was outstanding.

At 31 December 2010, £1.1 million (2009: £1.2 million) and £1.4 million (2009: £1.5 million) of the transaction costs in respect of the Further A notes and the Further B notes respectively remain unamortised.

The Further A notes and Further B notes were issued at a premium of £3.6 million and £10.8 million respectively, which is being released in proportion to the interest cost in the notes. At the balance sheet date £2.1 million (2009: £2.4 million) and £8.2 million (2009: £8.7 million) respectively remained unamortised.

16 Financial liabilities (continued)

(c) Class A and B Secured Notes – issued September 2010

On 27 September 2010, Dignity Finance PLC issued £48,650,000 Class A Secured Notes (the 'Second Further A notes') and £33,100,000 Class B Secured Notes (the 'Second Further B notes').

The Second Further A notes carry interest at 6.31 per cent, payable half yearly in arrears. The Second Further A notes are repayable in instalments ending in December 2023. The transaction costs incurred on issue of the Second Further A notes totalled £2.4 million. The Second Further B notes carry interest at 8.151 per cent, payable half yearly in arrears. The Second Further B notes are repayable in instalments ending in December 2030. The transaction costs incurred on issue of the Second Further B notes totalled £2.1 million. The principal outstanding on the Secured Notes and related issue costs have been presented on a net basis in the table on page 66. Both the Second Further A notes and the Second Further B notes are secured by first ranking security in respect of the undertakings and assets of Dignity (2002) Limited and its subsidiaries.

At 31 December 2010, £38.0 million of the principal of the Second Further A notes and £33.1 million of the principal of the Second Further B notes was outstanding.

At 31 December 2010, £2.4 million and £2.0 million of the transaction costs in respect of the Second Further A notes and the Second Further B notes respectively remain unamortised.

The Second Further A notes and Second Further B notes were issued at a premium of £5.7 million and £8.2 million respectively, which is being released in proportion to the interest cost in the notes. At the balance sheet date £5.5 million and £8.1 million respectively remained unamortised.

For further details of security over the class A and B Secured Notes see note 30(a).

(d) Obligations under finance leases

	31 December 2010 £m	25 December 2009 £m
Obligations under finance leases and hire purchase payable:		
Within one year	–	–
Between one and two years	–	–
Between two and five years	0.2	0.2
After five years	0.5	0.6
	0.7	0.8

The finance leases and hire purchase liabilities are secured on the related assets.

(e) Other financial liabilities

On 20 December 2002, Dignity (2002) Limited entered into contracts to swap the floating rate interest on a bank loan into fixed rate. Contractually, these swaps were not effective until 30 April 2003.

On 11 April 2003, as described in note 16(a), the Group issued Secured Notes at a fixed rate of interest. These notes replaced the bank loan. Consequently, the swaps were no longer required as the Group had no interest rate risk on the Secured Notes. As a result, the Group entered into further contracts on 11 April 2003 to swap fixed rate interest into floating in order to offset the original swaps and eliminate any interest rate risk in this regard.

As a result of interest rate movements between these two dates, the combined effect of all the contracts was that the Group makes fixed and determinable bi-annual payments on a notional principal amount.

These swap agreements were entered into under one ISDA master agreement. This master agreement forces the swaps to be viewed and settled on a net basis only; a position that cannot be altered without the written consent of both parties.

Accordingly, the overall transaction represents a financial liability. The fair value represents the discounted net present value of future cash flows. Further, as these contracts related to the raising of the Secured Notes, the liability has been accounted for as a transaction cost of the Class A and B Secured Notes and is being amortised in accordance with IAS 39.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

16 Financial liabilities (continued)**(f) Crematoria Acquisition Facility**

The Group also has a £10 million Crematoria Acquisition Facility ('the Crematoria Acquisition Facility'). £7.4 million carries interest at 5.59 per cent per annum. The remaining £2.6 million carries interest at a rate relative to three month LIBOR, with such rate being capped at 5.59 per cent. Consequently, the Group carries limited risk to increases in LIBOR on this facility. The Crematoria Acquisition Facility is fully drawn and will be repayable in one payment in November 2013.

The transaction costs incurred on the Crematoria Acquisition Facility were £0.2 million. The principal outstanding on the Crematoria Acquisition Facility and related issue costs have been presented on a net basis in the table above.

At 31 December 2010, £10.0 million (2009: £10.0 million) of the principal was outstanding. At 31 December 2010, £0.1 million (2009: £0.2 million) of the transaction costs remained unamortised.

For further details of security over the Crematoria Acquisition Facility see note 30(b).

(g) Current financial liabilities

The current financial liabilities represent the amounts falling due within one year of the Group's accounting reference date, 31 December.

17 Trade and other payables

	31 December 2010 £m	25 December 2009 (restated) £m
Current		
Trade payables	10.2	5.0
Tax and social security	1.3	1.3
Other current liabilities	1.4	1.3
Other current liabilities – Deferred Dividend Option	0.1	–
Accruals and deferred income	19.0	26.9
	32.0	34.5
Non-current		
Deferred income	1.1	1.2
Deferred consideration for acquisitions (note 26(a))	0.3	0.3
Long service awards	1.1	1.1
Other non-current liabilities	0.4	0.5
	2.9	3.1

18 Obligations under finance leases and operating leases

For minimum lease payments obligations under finance leases refer to note 21(d)(ii).

	31 December 2010 £m	25 December 2009 £m
The minimum lease payments under non-cancellable operating leases fall due as follows:		
Not later than one year	7.0	5.7
Later than one year but not more than five years	20.3	16.5
More than five years	89.3	29.8
	116.6	52.0

The non-cancellable operating leases principally relate to leasehold land and buildings.

Of the total operating lease payments charged to trading expenses, £0.1 million (2009: £0.1 million) are in respect of contingent rentals. The contingent rentals are based on the revenues generated at the specific locations.

Sublease payments received in the year amount to £0.4 million (2009: £0.4 million). Total future sublease payments receivable relating to operating leases amount to £0.5 million (2009: £0.5 million).

In addition, the Group has operating lease commitments with rentals determined in relation to sales. It is not possible to quantify future rentals payable under such leases.

19 Provisions for liabilities and charges

	Dilapidations £m (a)	Asbestos rectification £m (b)	Onerous contracts £m (c)	Cancellation provision £m (d)	Total £m
At beginning of period	2.4	0.1	0.6	0.7	3.8
Charged/(released) to income statement	0.5	(0.1)	–	1.0	1.4
Utilised in period	(0.3)	–	(0.1)	(0.5)	(0.9)
Amortisation of discount	0.1	–	–	–	0.1
At end of period	2.7	–	0.5	1.2	4.4

Provisions have been analysed between current and non-current as follows:

	31 December 2010 £m	25 December 2009 £m
Current	1.5	1.3
Non-current	2.9	2.5
	4.4	3.8

(a) Dilapidations

The provision for dilapidations covers the costs of repair to leased premises occupied by the Group in respect of which a dilapidations notification has been received, and properties where a dilapidation obligation exists but for which no notification has been received.

It is anticipated that the element of provision relating to dilapidation notices served, £0.8 million (2009: £0.7 million), will be incurred in the following financial year, and the element relating to dilapidation obligations where no notice has been served will be utilised over the terms of the relevant property leases, the majority of which is expected to be by 31 December 2019.

(b) Asbestos rectification

In May 2004, the Control of Asbestos at Work regulations came into effect. This introduces an explicit duty to manage asbestos in all non-domestic properties. Those who have responsibility for the maintenance and/or repair of the premises are similarly responsible for the control of asbestos. Therefore, where the Group has entered into leases with a 'tenant-repairing' clause, it is also responsible for the control of asbestos.

The provision included the expected rectification costs of properties plus the estimated costs of surveying these properties. This provision has been fully released during the year.

(c) Onerous contracts

The Group has provided for the discounted future costs of certain contracts to which the Group is legally bound. These contracts relate to vacant leasehold properties and other contracts from which no economic benefit is derived. The provision will be utilised over the term of the contracts and it is anticipated that it will be fully utilised after seven years.

Included within the provision is an amount of £0.1 million (2009: £0.1 million) relating to the expected costs of ongoing rent reviews, the outcomes of which have been based on recent experience of similar reviews on other properties.

(d) Cancellation provision

As described in note 1, the Group receives monies from certain pre-arranged funeral plan Trusts in respect of the marketing of pre-arranged funeral plans, which are refundable to the Trust in the event of cancellation.

The provision covers the expected cost of such cancellations anticipated to occur in future years relating to plans sold before the balance sheet date and is anticipated to be utilised over the next three years.

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for the 53 week period ended 31 December 2010

20 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27 per cent (2009: 28 per cent).

The movement on the deferred tax account is as shown below:

	31 December 2010 £m	25 December 2009 £m
At beginning of period	26.0	24.4
Charged to income statement (note 6)	0.6	0.9
Adjustment for rate change – 28% to 27%	(0.8)	–
Taken to equity (note 6)	(0.2)	(0.5)
Arising on acquisitions	1.7	1.2
At end of period	27.3	26.0

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below:

Deferred tax liabilities

	Pensions £m	Accelerated tax depreciation £m	Other £m	Total £m
At beginning of period	2.5	17.8	7.1	27.4
Charged to income statement (note 6)	–	(1.5)	2.0	0.5
Adjustment for rate change – 28% to 27%	(0.1)	(0.6)	(0.1)	(0.8)
Taken to equity (note 6)	(0.1)	–	–	(0.1)
Arising on acquisitions (note 26(a))	–	1.2	0.5	1.7
At end of period	2.3	16.9	9.5	28.7

Deferred tax assets

	Other £m	Total £m
At beginning of period	(1.4)	(1.4)
Charged to income statement (note 6)	0.1	0.1
Taken to equity (note 6)	(0.1)	(0.1)
At end of period	(1.4)	(1.4)

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 31 December 2010 was £27.3 million (2009: £26.0 million).

Other deferred tax liabilities includes goodwill on trade names and capital gains rolled forward, other tax assets includes options schemes and long service awards.

No deferred tax asset is recognised in respect of losses within the Group amounting to £4.1 million net at 27 per cent (2009: £4.3 million net at 28 per cent). Based on the current debt structure of the Group and the nature of these losses, the Directors do not consider that taxable profits will arise in the relevant company from which the future reversal of the underlying timing differences can be deducted.

Elements of these deferred tax balances may be payable/recoverable within one year. However, the Directors consider that it is not possible to quantify the amount because the level of uncertainty in the timing of events and have therefore classified the whole balance as due after more than one year.

The deferred income tax charged to equity during the period was as follows:

	2010 £m	2009 £m
Deferred tax credit on actuarial losses on retirement benefit obligations	(0.2)	(0.5)
Adjustment for rate change – 28% to 27%	(0.1)	–

21 Financial instruments

Fair values of non-derivative financial assets and financial liabilities

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at relevant interest rates. The carrying values of short term borrowings approximate to book value.

Trade receivables are held net of impairment.

Fair value estimation

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All assets and liabilities are held at amortised cost other than interest rate swaps which are held at fair value. These swaps are level 2.

(a) Fair value of current and non-current financial assets and liabilities

	31 December 2010		25 December 2009 (restated)	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Long term borrowings (excluding finance lease obligations) (note 16)	(337.8)	(398.9)	(265.8)	(289.2)
Finance lease obligations (note 16)	(0.7)	(0.7)	(0.8)	(0.8)
	(338.5)	(399.6)	(266.6)	(290.0)
Fair values of other financial assets and financial liabilities				
Primary financial instruments held or issued to finance the Group's operations:				
Short term borrowings (excluding finance lease obligations) (note 16)	(8.7)	(9.7)	(8.5)	(9.0)
Trade and other payables (excluding statutory liabilities) (note 17)	(30.7)	(30.7)	(33.2)	(33.2)
Trade and other receivables (excluding prepayments) (note 14)	20.3	20.3	19.0	19.0
Cash and cash equivalents (note 15)	48.1	48.1	45.8	45.8
Other non-current financial liabilities (note 17)	(2.9)	(2.9)	(3.1)	(3.1)

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

21 Financial instruments (continued)

(b) Maturity of financial liabilities

The tables below analyse the Group's financial liabilities, which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows, including interest costs yet to be incurred.

	31 December 2010					Total £m
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	
Cash liabilities						
Class A and B Secured Notes (gross)	7.7	8.3	8.9	20.0	280.3	325.2
Interest payable on Notes	23.5	23.0	22.4	43.0	193.7	305.6
Swaps	0.7	0.7	0.7	1.4	4.6	8.1
Crematoria Acquisition Facility	–	–	10.0	–	–	10.0
Interest payable on Crematoria Acquisition Facility	0.5	0.5	0.5	–	–	1.5
Finance leases	–	0.1	0.1	0.2	2.7	3.1
Debt repayments	32.4	32.6	42.6	64.6	481.3	653.5
Other financial liabilities	31.6	0.3	0.3	0.5	1.3	34.0
	64.0	32.9	42.9	65.1	482.6	687.5

	25 December 2009					Total £m
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	
Cash liabilities						
Class A and B Secured Notes (gross)	8.0*	5.9	6.3	14.2	227.7	262.1
Interest payable on Notes	28.2**	18.4	18.0	34.8	170.4	269.8
Swaps	1.0***	0.7	0.7	1.4	5.3	9.1
Crematoria Acquisition Facility	–	–	–	10.0	–	10.0
Interest payable on Crematoria Acquisition Facility	0.5	0.5	0.5	0.4	–	1.9
Finance leases	0.1	0.1	0.1	0.1	0.4	0.8
Debt repayments	37.8	25.6	25.6	60.9	403.8	553.7
Other financial liabilities	33.9****	0.4	0.4	0.5	1.2	36.4
	71.7	26.0	26.0	61.4	405.0	590.1

* This amount includes £2.6 million that was paid on 31 December 2009. See note 15(b).

** This amount includes £9.5 million that was paid on 31 December 2009. See note 15(b).

*** This amount includes £0.3 million that was paid on 31 December 2009. See note 15(b).

**** This amount includes £0.1 million that was paid on 31 December 2009. See note 15(b).

The amounts disclosed in the tables below represent the anticipated amortisation profile for the issue costs and premium relating to the issue of the A and B Secured Notes.

	31 December 2010					Total £m
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	
Non-cash liabilities						
Issue costs on Secured Notes	1.6	1.6	1.5	2.8	10.3	17.8
Premium on Secured Notes	(1.9)	(1.9)	(1.8)	(3.5)	(14.8)	(23.9)
Issue costs on Crematoria Acquisition Facility	–	–	0.1	–	–	0.1
	(0.3)	(0.3)	(0.2)	(0.7)	(4.5)	(6.0)

21 Financial instruments (continued)

	25 December 2009					Total £m
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	
Non-cash liabilities						
Issue costs	1.2	1.2	1.2	2.2	8.8	14.6
Premium on Secured Notes	(0.8)	(0.8)	(0.7)	(1.4)	(7.4)	(11.1)
Crematoria Acquisition Facility	–	–	0.1	0.1	–	0.2
	0.4	0.4	0.6	0.9	1.4	3.7

(c) Trade receivables

As at 31 December 2010, £8.4 million of the gross trade receivables (2009: £7.2 million) were past due and partially impaired. A provision for impairment is established based on historical experience. The amount of the provision, as at 31 December 2010, was £3.7 million (2009: £3.6 million). The individually impaired receivables principally relate to monies owing for funerals performed by the funeral services division. The aging of these receivables is as follows:

	31 December 2010 £m	25 December 2009 £m
One to six months	5.7	4.5
Over six months	2.7	2.7
	8.4	7.2

The amount of gross trade receivables past due that were not impaired was not significant.

Movements on the Group's provision for impairment of trade receivables are as follows:

	31 December 2010 £m	25 December 2009 £m
At beginning of period	(3.6)	(3.3)
Charged to income statement	(1.3)	(1.1)
Utilised in period	1.2	0.8
At end of period	(3.7)	(3.6)

(d) Borrowing facilities

(i) The Group has the following undrawn committed borrowing facilities available at 31 December 2010, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

	31 December 2010 £m	25 December 2009 £m
Expiring within one year	50.0	40.0
Expiring between one and two years	–	–
Expiring in more than two years	5.0	5.0
	55.0	45.0

£50.0 million (2009: £40.0 million) of the amount above is a liquidity facility relating to the Class A and B Secured Notes. This facility may only be used to repay interest and principal on the Secured Notes in the event of insufficient cash to service these instruments. The facility is subject to annual renewal. However, if the bank providing the facility does not renew it, then the provider is required to place £50.0 million (2009: £40.0 million) in a bank account, which the Group may access as if it represented a borrowing facility on the same terms. The facility is available on these terms until the Secured Notes have been repaid in full.

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for the 53 week period ended 31 December 2010

21 Financial instruments (continued)

The remaining £5.0 million facility expires in April 2013. Both these facilities incur commitment fees at market rates.

(ii) The minimum lease payments under finance leases fall due as follows:

	31 December 2010 £m	25 December 2009 £m
Not later than one year	–	0.1
Later than one year but not more than five years	0.2	0.2
More than five years	2.9	2.9
	3.1	3.2
Future finance costs on finance leases	(2.4)	(2.4)
Present value of finance lease liabilities	0.7	0.8

22 Called up share capital

	31 December 2010 £m	25 December 2009 £m
Allotted, called up and fully paid Equity shares		
54,757,002 (2009: 63,737,653) Ordinary Shares of £0.105 (2009: £0.09) each	5.7	5.7

From 1 October 2009, the Companies Act 2006 abolished the requirement for a company to have an authorised share capital. The Company's articles have been updated to show there are no restrictions to the Company's ability to issue shares.

Each Ordinary Share carries equal voting rights and there are no restrictions on any share.

During the period, the Group received £nil consideration in relation to the 143,713 shares issued under the 2007 LTIP scheme.

Changes in issued share capital

On 10 October 2010, the Ordinary Share capital of the Company was consolidated such that shareholders received six Ordinary Shares of £0.105 each in exchange for every seven Ordinary Shares of £0.09 each held at close of business on 8 October 2010.

As a result of the Return of Value undertaken in the year bonus shares of 19,274,610 B Shares with a nominal value of £1 per share and 44,607,017 C Shares were issued. The B Shares were issued on 8 October 2010 and redeemed for cash on 11 October 2010. The C Shares were issued on 8 October 2010 and 44,500,715 were converted to Deferred Shares on the same day.

As a result of the Return of Value undertaken in the year, the Group has 106,302 (2009: nil) C Shares in issue at the period end. These C Shares have no voting rights and in accordance with the rights attached to the C Shares, the Company may at any time after 1 May 2011 but before 31 July 2011 purchase the C Shares in issue for £1 per C Share.

The Group also has 44,500,715 (2009: nil) Deferred Shares in issue at the period end. These Deferred Shares have no voting rights and have a nominal value of £0.0001 per share, £4,500 in total. The Deferred Shares were purchased by the Company on 2 February 2011 for £1 in aggregate and subsequently cancelled on the same date.

Potential issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the Company under an approved Save As You Earn (SAYE) Scheme started in 2010. In addition, Executive Directors and senior management hold options to subscribe for shares in the Company under Long Term Incentive Plans (LTIPs) awarded in 2008, 2009 and 2010.

22 Called up share capital (continued)

The total number of outstanding shares subject to options (excluding lapses), the periods in which they were granted and the periods in which they may be exercised are given below:

Year of grant	Exercise price (pence)	Exercise period	2010 Number	2009 Number	2008 Number
2010 – SAYE	701.00	1 December 2013 to 31 May 2014	207,231	n/a	n/a
2008 – LTIP	–	17 March 2011 to 17 March 2012	227,089	227,089	227,963
2009 – LTIP	–	20 March 2012 to 20 March 2013	267,272	267,272	n/a
2010 – LTIP	–	19 March 2013 to 19 March 2014	255,844	n/a	n/a

23 Share-based payments

LTIP Schemes

The LTIP Scheme was introduced after the flotation of the Group in 2004. Under the LTIP Scheme, the remuneration committee can grant options over shares in the Company to employees of the Group. Awards under the LTIP Scheme are generally reserved for Executive Directors and senior management. The Company has made annual grants since April 2004. Options granted under the LTIP Scheme will become exercisable on the third anniversary of the date of grant, subject to the conditions described on pages 31 and 32. Exercise of an option is subject to continued employment unless an individual ceases to be an employee by reason of death, illness, redundancy or other similar circumstances.

Options were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	19 March 2010	20 March 2009	18 March 2008
Share price at grant date	£6.55	£5.66	£7.62
Exercise price	–	–	–
Number of employees	32	30	31
Shares under option	255,844	268,799	229,733
Vesting period (years)	3	3	3
Expected volatility	26.4%	23.1%	18.1%
Option life (years)	10	10	10
Expected life (years)	3	3	3
Risk free rate	1.92%	1.89%	3.74%
Expected dividends expressed as a dividend yield	2.2%	2.1%	1.6%
Possibility of ceasing employment before vesting	0%	0%	0%
Fair value per option	£4.19	£3.11	£4.13

The expected volatility is calculated by reference to historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

During the period, nil options (2009: 206) under the 2007 LTIP Scheme, nil options (2009: 874) under the 2008 LTIP Scheme, nil (2009: 1,527) under the 2009 LTIP scheme and nil under the 2010 LTIP scheme were forfeited. 143,713 options were exercised under the 2007 LTIP Scheme during the period. The weighted average share price of the options exercised during the period was £6.25. The options under the 2008, 2009 and 2010 LTIP Schemes have not yet vested.

The charge to the income statement in the period in respect of the LTIP Schemes was £0.9 million (2009: £0.8 million). All of which are equity based settled.

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23 Share-based payments (continued)**SAYE Scheme**

Two Inland Revenue approved SAYE Schemes were in place during the period with both carrying the same terms and conditions. Options were valued using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

	2010 Scheme	2007 Scheme
Grant date	22 October 2010	21 May 2007
Share price at grant date	£6.46	£7.26
Exercise price	£7.01	£7.15
Number of employees	489	680
Shares under option	207,231	292,377
Vesting period (years)	3	3
Expected volatility	26.6%	16.8%
Option life (years)	3.5	3.5
Expected life (years)	3.25	3.25
Risk free rate	1.02%	5.48%
Expected dividends expressed as a dividend yield	2.2%	1.4%
Possibility of failing to save	0%	0%
Fair value per option	£0.86	£1.34

During the period nil (2009: 38,922) under the 2007 SAYE Scheme and nil under the 2010 SAYE Scheme (2009: nil) were forfeited and 1,583 options (2009: 36) were exercised under the 2007 SAYE Scheme. The weighted average share price of the options exercised during the period was £6.53.

The expected volatility is calculated by reference to historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The options under the 2010 SAYE Scheme have not yet vested.

The charge to the income statement in the period in respect of the SAYE Schemes was £0.1 million (2009: £0.2 million). All of which are equity based settled.

24 Net debt

	31 December 2010 £m	25 December 2009 £m
Net amounts owing on 2003 and 2006 Class A and B Secured Notes per financial statements	(251.0)	(258.6)
Add: unamortised issue costs (notes 16(a) and 16(b))	(13.4)	(14.6)
Gross amounts owing on 2003 and 2006 Class A and B Secured Notes per financial statements	(264.4)	(273.2)
Net amounts owing on 2010 Class A and B Secured Notes per financial statements	(80.3)	–
Add: unamortised issue costs (note 16(c))	(4.4)	–
Gross amounts owing on all Class A and B Secured Notes per financial statements	(349.1)	(273.2)
Net amounts owing on Crematoria Acquisition Facility per financial statements	(9.9)	(9.8)
Add: unamortised issue costs on Crematoria Acquisition Facility (note 16(f))	(0.1)	(0.2)
Gross amounts owing	(359.1)	(283.2)
Accrued interest on Class A and B Secured Notes (paid 31 December)	–	(9.6)
Accrued interest on Crematoria Acquisition Facility	(0.1)	(0.1)
Cash and cash equivalents (note 15)	48.1	45.8
Net debt	(311.1)	(247.1)

In addition to the above, the consolidated balance sheet also includes finance lease obligations and other financial liabilities which totalled £5.9 million (2009: £6.7 million). These amounts do not represent sources of funding for the Group and are therefore excluded from the calculation of net debt.

The Group's primary financial covenant in respect of the Secured Notes requires EBITDA to total debt service to be at least 1.5 times. At 31 December 2010, the actual ratio was 2.56 times (2009: 2.60 times).

These ratios are calculated for EBITDA and total debt service on a 12 month rolling basis and reported quarterly. In addition, both terms are specifically defined in the legal agreement relating to the Secured Notes. As such, they cannot be accurately calculated from the contents of this report.

25 Reconciliation of cash generated from operations

	2010 £m	2009 £m
Net profit for the period	29.0	26.6
Adjustments for:		
Taxation	10.8	10.9
Net finance costs	20.6	20.0
Profit on disposal of fixed assets	(0.5)	(1.1)
Depreciation charges	9.0	8.3
Amortisation of intangibles	0.2	0.2
Inventories	(1.0)	(0.2)
Trade receivables	(2.4)	1.4
Trade payables	5.0	(1.8)
Transaction costs	1.1	–
Changes in other working capital (excluding acquisitions)	1.7	–
Employee share option charges (note 23)	1.0	1.0
Cash generated from operations before transaction costs and exceptional pension contributions	74.5	65.3

Other non-cash transactions

Non-cash charges comprise amortisation of deferred debt issue costs, as discussed in note 16(a), (b) and (c).

26 Acquisitions

(a) Acquisition of subsidiary and other businesses

	Provisional fair value £m
Tangible fixed assets	0.6
Intangible assets:	
Trade names	3.7
Other working capital	1.3
Deferred taxation	(1.7)
Net assets acquired	3.9
Goodwill arising	3.2
	7.1
Satisfied by:	
Cash paid on completion funded from internally generated cash flows	7.0
Deferred consideration	0.1
Total consideration	7.1

During 2010, the Group acquired the operational interest of six funeral locations. These transactions were either acquisitions of trade and assets or acquisitions of the entire issued share capital of a limited company.

All these acquisitions have been accounted for under the acquisition method. None were individually material and consequently have been aggregated.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill. This represents the value to the Group of the funeral locations.

The fair value adjustments contain some provisional amounts, which will be finalised in 2011. These adjustments reflect the recognition of trade names and associated deferred taxation and adjustments to reflect the fair value of other working capital movements such as debtors, inventories and accruals.

The businesses acquired have their assets and liabilities amalgamated within the existing business structure and as such, it is impractical to determine, without undue expense and delay due to the immaterial size of each, the post acquisition results.

It is also not possible to quantify the results of these businesses prior to acquisition as it represents confidential information relating to the vendors, which the Directors do not have authority to disclose.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

26 Acquisitions (continued)

(b) Reconciliation to cash flow statement

	2010 £m	2009 £m
Cash paid on completion	7.0	13.3
Cash paid in respect of deferred consideration obligations	0.1	0.1
Cash acquired on acquisition	(1.3)	(0.1)
Acquisition of subsidiaries and businesses as reported in the cash flow statement	5.8	13.3

27 Employees and Directors

	2010 £m	2009 £m
Wages and salaries	57.7	56.4
Social security costs	4.6	4.5
Other pension costs	1.4	1.0
Employee share option charges (note 23)	0.1	0.2
Key management share option charges (note 23)	0.9	0.8
	64.7	62.9

Key management are considered to be the Board of Directors only and thus no additional disclosures are presented than that included in the Report on Directors' Remuneration. The monthly average number of people, including Directors, employed by the Group during the period was as follows:

	2010 Number	2009 Number
Management and administration	117	115
Funeral services staff	2,031	2,035
Crematoria staff	263	256
Pre-arranged funeral plan staff	56	49
	2,467	2,455

Directors' emoluments

Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 34 to 36 which form part of these consolidated financial statements.

28 Pension commitments

Defined contribution plans

The Group contributes to certain individuals' personal pension schemes. These contributions are accounted for as defined contribution schemes.

The pension costs for defined contribution schemes are as follows:

	2010 £m	2009 £m
Defined contribution schemes	0.1	0.1

Defined benefit plans

In 2005, the Group operated two defined benefit plans in the UK. On 6 April 2006 the Dignity 1972 Pension Scheme was merged into the Dignity Pension and Assurance Scheme. A full actuarial valuation was carried out as at 6 April 2008. The valuation results of the merged scheme were updated to 31 December 2010 by a qualified independent Actuary.

For 2010, the employer's contribution rate payable was 9.2 per cent of Pensionable Salaries (2009: 9.2 per cent of Pensionable Salaries). The total monetary contribution paid by the employer for 2010 was £1.3 million (2009: £1.3 million). In addition special contributions of £1.0 million have been paid to make the total contribution for the year £2.3 million.

28 Pension commitments (continued)

The principal assumptions used by the actuary were:

Assumptions	2010	2009
Discount rate	5.4%	5.7%
Expected long-term rate of return on assets	5.7%	5.5%
Rate of increase in salaries	3.75%	3.75%
Rate of increase in payment of post April 1997 pensionable service	3.4%	3.4%
Rate of increase in payment of post April 2005 pensionable service	2.5%	2.5%
RPI price inflation assumption	3.5%	3.5%
CPI price inflation assumption	3.0%	n/a

Due to the Government announcement for future statutory rates of revaluation to be based on increases in CPI instead of RPI and inline with pension scheme rules, an amount of £0.8 million has been credited to the Statement of Comprehensive Income relating to this change.

The underlying mortality assumption is PCA00 on a year of birth usage, with medium cohort future improvement factors subject to a minimum annual rate of future improvement equal to one per cent and rated up by the addition of four years to age for males and by the addition of one year to age for females (2009: same).

Pensions and other post-retirement obligations

The amounts recognised in the balance sheet are determined as follows:

	2010 £m	2009 £m
Fair value of plan assets	84.6	77.1
Present value of funded obligations	(76.1)	(68.0)
Net asset recognised in the balance sheet	8.5	9.1

Analysis of amount charged to income statement in respect of defined benefit schemes

	2010 £m	2009 £m
Current service cost	1.1	0.8
Past service cost	0.2	0.1
Total included within cost of sales (staff costs)	1.3	0.9
Interest cost	3.9	3.5
Expected return on plan assets	(4.3)	(3.8)
Total included within finance income	(0.4)	(0.3)

Expected contributions to the Group's pension scheme for the 52 week period ended 30 December 2011 are £1.3 million.

Analysis of fair value of plan assets

	2010		2009		2008		2007		2006	
	£m	%	£m	%	£m	%	£m	%	£m	%
Equity and property	49.1	58.0	48.0	62.2	31.1	45.0	37.7	55.5	30.9	51.6
Debt	27.2	32.2	14.3	18.6	14.8	21.4	–	–	5.7	9.5
Cash	8.3	9.8	14.8	19.2	23.2	33.6	30.2	44.5	23.3	38.9
Fair value of plan assets	84.6	100.0	77.1	100.0	69.1	100.0	67.9	100.0	59.9	100.0

At 31 December 2010 and 25 December 2009 the Pension Trustees did not hold, on behalf of the scheme, any direct investments in the Group.

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

28 Pension commitments (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of obligation at beginning of period	(68.0)	(55.9)	(61.1)	(59.3)	(57.8)
Current service cost	(1.1)	(0.8)	(0.9)	(1.0)	(1.0)
Past service cost	(0.2)	(0.1)	(0.2)	(0.1)	–
Interest cost	(3.9)	(3.5)	(3.6)	(3.0)	(2.8)
Benefits paid	3.1	2.9	2.8	2.6	2.3
Contributions by participants	(1.4)	(1.3)	(1.3)	(1.3)	(1.4)
Actuarial (losses)/gains	(4.6)	(9.3)	8.4	1.0	1.4
Present value of obligation at end of period	(76.1)	(68.0)	(55.9)	(61.1)	(59.3)

Changes in the fair value of plan assets are as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of plan assets at beginning of period	77.1	69.1	67.9	59.9	45.8
Expected return on plan assets	4.3	3.8	4.3	3.7	2.8
Contributions by Group	2.3	1.3	1.2	1.2	11.2
Contributions by participants	1.4	1.3	1.3	1.3	1.4
Benefits paid	(3.1)	(2.9)	(2.8)	(2.6)	(2.3)
Actuarial gains/(losses)	2.6	4.5	(2.8)	4.4	1.0
Fair value of plan assets at end of period	84.6	77.1	69.1	67.9	59.9

Analysis of the movement in the balance sheet asset

	2010 £m	2009 £m
At beginning of period	9.1	13.2
Total expense as above	(0.9)	(0.6)
Actuarial losses	(2.0)	(4.8)
Contributions by Group	2.3	1.3
At end of period	8.5	9.1

Cumulative actuarial gains and losses recognised in equity

	2010 £m	2009 £m
At beginning of period	9.7	14.5
Net actuarial losses recognised in the period	(2.0)	(4.8)
At end of period	7.7	9.7

The actual return on plan assets was £6.9 million (2009: £8.3 million).

History of experience gains and losses

	2010	2009	2008	2007	2006
Experience adjustments arising on scheme assets:					
Amount (£m)	(2.6)	(4.5)	2.8	(4.4)	(1.0)
Percentage of scheme's assets	3.0%	5.8%	4.1%	6.5%	1.7%
Experience adjustments arising on scheme liabilities:					
Amount (£m)	(1.1)	(0.3)	(1.0)	(0.9)	0.5
Percentage of the present value of the scheme's liabilities	1.4%	0.4%	1.8%	1.5%	0.8%
Present value of scheme liabilities (£m)	(76.1)	(68.0)	(55.9)	(61.1)	(59.3)
Fair value of scheme assets (£m)	84.6	77.1	69.1	67.9	59.9
Surplus (£m)	8.5	9.1	13.2	6.8	0.6

Change in assumptions	Liabilities £m	Assets £m	Surplus £m	Increase/ (decrease) in surplus £m
No change	(76.1)	84.6	8.5	–
0.25% rise in discount rate	(73.1)	84.6	11.5	3.0
0.25% fall in discount rate	(79.2)	84.6	5.4	(3.1)
0.25% rise in inflation	(78.3)	84.6	6.3	(2.2)
0.25% fall in inflation	(74.0)	84.6	10.6	2.1

29 Pre-arranged funeral plans

(a) Contingencies and commitments

Dignity Pre-arrangement Limited, Dignity Securities Limited and Advance Planning Limited are fellow members of the Dignity Group in the United Kingdom. These companies have sold pre-arranged funeral plans to their clients in the past. All monies from these sales are held and controlled by three independent Trusts, being the National Funeral Trust, the Dignity Limited Trust Fund and the Trust for Age UK Funeral Plans respectively. Further details of the transactions can be found in the financial statements of these companies, which are available from 4 King Edwards Court, King Edwards Square, Sutton Coldfield, B73 6AP.

The Group has given commitments to certain of these clients to perform their funeral. The agreed amounts payable to either the Group or to third party funeral directors will be paid out of the funds held in the Trusts.

It is the view of the Directors that none of the commitments given to these clients are onerous to the Group.

(b) Pre-arranged funeral plan trust assets

The market value of the assets of the pre-arranged funeral plan trusts was £373.8 million at 31 December 2010 (2009: £318.6 million) in respect of 200,000 (2009: 184,000) unfulfilled pre-arranged funeral plans. The remaining 38,000 unfulfilled pre-arranged funeral plans related to those backed by Insurance Plans, as described in note 1 to the consolidated financial statements.

The majority of the trustees of the pre-arranged funeral plan trusts are unconnected to the Group, as required by current UK legislation. The trustees are required to have the Trusts' liabilities actuarially valued once a year. The latest valuations were performed as at 24 September 2010 (2009: 25 September 2009) using assumptions determined by the trustees. These valuations showed the Trusts to have liabilities in respect of the pre-arranged funeral plan trusts of £305.2 million as at 24 September 2010 (2009: £257.9 million). The corresponding market value of the assets of the pre-arranged funeral plan trusts was £357.9 million (2009: £305.4 million) as at the same date. Consequently the actuarial valuation recorded total surpluses of £52.7 million at 24 September 2010 (2009: £47.5 million).

(c) Accounting reporting date

The end of the reporting period of the financial statements of the Trusts is set at 31 December. This may be different to the reporting period of the financial statements of Dignity plc, but by no more than 7 days.

30 Contingent liabilities

(a) Securitisation

On 11 April 2003, the Group refinanced its debt by way of a whole business securitisation. On 21 February 2006 and 27 September 2010 further Secured Notes were issued on identical terms. As a result, the following guarantees and charges were granted to BNY Corporate Trustee Services Limited in its capacity as Security Trustee in the securitisation:

- The Dignity (2002) Group have granted the Security Trustee fixed and floating charges over the assets and undertakings of the Dignity (2002) Group;
- Dignity plc has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity (2004) Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings No.2 Limited and Dignity (2002) Limited;
- Dignity Holdings No. 2 Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings Limited;
- Dignity Holdings Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Mezzco Limited;
- Dignity Holdings Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loans (both interest and non interest bearing) to Dignity (2002) Limited;
- Dignity Mezzco Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loan to Dignity (2002) Limited.

At 31 December 2010, the amount outstanding in relation to these borrowings was £349.1 million (2009: £273.2 million).

Notes to the financial statements continued

for the 53 week period ended 31 December 2010

30 Contingent liabilities (continued)

(b) Crematoria Acquisition Facility

On 24 November 2008, the Group obtained a £10.0 million loan facility from the National Westminster Bank plc ('Nat West'), which is fully drawn. As a consequence of the legal structure of this facility:

- Dignity plc has granted Nat West, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity (2008) Limited;
- Dignity (2008) Limited has granted Nat West, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Crematoria Limited;
- Dignity (2008) Limited and Dignity Crematoria Limited have granted Nat West fixed and floating charges over the assets and undertakings of each of Dignity (2008) Limited and Dignity Crematoria Limited; and
- Dignity plc have acted as guarantor in the event that Dignity (2008) Limited fails to pay interest due on the facility.

In the opinion of the Directors no liability is likely to crystallise in respect of these guarantees.

At 31 December 2010, the amount outstanding in relation to these borrowings was £10.0 million (2009: £10.0 million).

31 Related party transactions

The ultimate controlling party of the Group is Dignity plc.

On 19 May 2010, the Group entered into a contract with Bglobal to have smart meters fitted at some of its locations. £26,500 has been charged for the period. James Newman is a Non-Executive Director of Bglobal and the transaction has been formally approved by the Board and is at arm's length.

Pre-arrangement trusts

During the period the Group entered into transactions with the Trusts associated with the pre-arranged funeral plan businesses. The nature of the relationship with the Trusts is set out in the accounting policies. Amounts may only be paid out of the Trusts in accordance with the relevant Trust Deeds.

Transactions principally comprise:

- The recovery of marketing and administration expenses in relation to plans sold net of cancellations; and
- Receipts from the Trusts in respect of carrying out funerals.

Transactions also include:

- Receipts from the Trusts in respect of cancellations by existing members;
- Reimbursement by the Trusts of expenses paid by the Group on behalf of the respective Trusts; and
- The payment of realised surpluses generated by the Trust funds as and when the trustees sanction such payments.

Related party transactions are summarised below:

	Transactions during the period		Amounts due to the Group at the period end	
	2010 £m	2009 £m	2010 £m	2009 £m
Dignity Limited Trust Fund	0.3	0.3	–	–
National Funeral Trust	21.2	16.8	1.1	1.5
Trust for Age UK Funeral Plans	25.0	17.9	1.3	2.1

32 Post balance sheet events

The Group has acquired three funeral locations since the balance sheet date for a total consideration of £6.4 million.

Independent Auditors' report to the members of Dignity plc

for the 53 week period ended 31 December 2010

We have audited the parent company financial statements of Dignity plc for the 53 week period ended 31 December 2010 which comprise the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report on Directors Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the 53 week period ended 31 December 2010 for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Report on Directors Remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the consolidated financial statements of Dignity plc for the 53 week period ended 31 December 2010.

Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

10 March 2011

Dignity plc Company balance sheet

as at 31 December 2010

	Note	31 December 2010 £m	25 December 2009 £m
Fixed assets			
Investments	C2	135.2	134.2
Current assets			
Debtors	C3	94.5	72.4
Cash at bank and in hand		33.0	14.5
Total current assets		127.5	86.9
Creditors: amounts falling due within one year	C4	(13.8)	(14.4)
Net current assets		113.7	72.5
Total assets less current liabilities		248.9	206.7
Net assets		248.9	206.7
Capital and reserves			
Called up share capital	C5	5.7	5.7
Share premium account	C5	17.4	35.8
Capital redemption reserve	C5	99.3	80.0
Other reserves	C5	1.1	1.1
Profit and loss account	C5	125.4	84.1
Total shareholders' funds	C6	248.9	206.7

The financial statements on pages 84 to 88 were approved by the Board of Directors on 10 March 2011 and were signed on its behalf by:

M K McCollum
Chief Executive

S L Whittern
Finance Director

Notes to the Dignity plc financial statements

C1 Principal accounting policies

Basis of preparation

These financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). A summary of the principal accounting policies, which have been consistently applied, is set out below.

In accordance with the concession granted under section 408 of the Companies Act 2006, the profit and loss account of the Company has not been separately presented in the financial statements.

In the current period, the Company's financial statements have been prepared for the 53 week period ended 31 December 2010. For the comparative period, the Company's financial statements have been prepared for the 52 week period ended 25 December 2009.

The Company has taken advantage of the exemption provided within FRS 8, Related Party Disclosures, not to disclose transactions with subsidiary undertakings, whose voting rights are controlled within the Group.

Furthermore, the Company has taken advantage of the exemption provided within FRS 29, Financial Instruments and Disclosures, not to disclose details of any financial instruments held.

Fixed assets investments

Fixed asset investments are stated at historical cost, less any provision for impairment.

Impairment of fixed assets

The carrying values of fixed assets are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable or at the end of the first full financial year following the recognition. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account within operating profit. A reversal of an impairment loss is recognised in the profit and loss account to the extent that the original loss was recognised.

Employee share schemes

The Company operates two employee share schemes: The Save As You Earn Scheme ('SAYE') and Long Term Incentive Plan Scheme ('LTIP'). See note 23 of the notes to the consolidated financial statements.

The Company applies UITF 44 in respect of share option schemes resulting in the charge for such schemes being recognised in a subsidiary of the Company. The Company's financial statements reflect the cost of the scheme as an increase in the cost of investment in the subsidiary.

Employee share trust

The assets of the employee share trust are held by a separate limited company, of which the directors consider that Dignity plc has de facto control. In accordance with UITF 38, Accounting for ESOP Trusts and the substance of the transaction, the trust's assets and liabilities are recognised in the Company's balance sheet within share capital and reserves.

Notes to the Dignity plc financial statements continued

C2 Investments in subsidiary undertakings

Cost and net book amount	£m
At beginning of the period	134.2
Additions in respect of share-based payments	1.0
End of period	135.2

Company name	Principal activity	Number of shares at 31 December 2010	Percentage held
Dignity Services	Intermediate holding company	203,746,505 Ordinary at 1p each	100%
Dignity Funerals Limited	Funeral services	577,376,905 Ordinary at 0.1p each	100%
Pitcher and Le Quesne Limited	Funeral directors	100 Ordinary at £1 each	99%
Dignity Pre-Arrangement Limited	Pre-arranged funeral plans	5,001,001 Ordinary at £1 each	100%
Dignity Securities Limited	Pre-arranged funeral plans	19,801 Ordinary at £1 each	100%
		750,000 Redeemable Preference Shares at £1 each	100%
Advance Planning Limited	Pre-arranged funeral plans	7,500 A Ordinary at £1 each	100%
		2,500 B Ordinary at £1 each	100%
		3,863,291 0.000001 pence Redeemable Preference Shares at £1 each	100%
Dignity Finance PLC	Finance company	50,000 Ordinary at £1 each	100%
Birkbeck Securities Limited	Intermediate holding company	1,102,271 Ordinary at £1 each	100%
Dignity Finance Holdings Limited	Intermediate holding company	50,000 Ordinary at £1 each	100%
Dignity Holdings No. 2 Limited	Intermediate holding company	2,000,000 Ordinary at £1 each	100%
Dignity Mezzco Limited	Intermediate holding company	1,000 Ordinary at £1 each	100%
Dignity Holdings Limited	Intermediate holding company	1,500,000 Ordinary at £1 each	100%
Dignity (2002) Limited	Intermediate holding company	110,000,002 Ordinary at 0.01p each	100%
Dignity (2004) Limited	Intermediate holding company	1,000 Ordinary at £1 each	100%
Dignity (2008) Limited	Intermediate holding company	1 Ordinary at £1 each	100%
Dignity Crematoria Limited	Construction and leasing of crematoria	10,000 A Ordinary at £1 each	100%
		10,000 B Ordinary at £1 each	100%
		10,000 C Ordinary at £1 each	100%
		10,000 D Ordinary at £1 each	100%
		10,000 E Ordinary at £1 each	100%

All of the subsidiaries are incorporated in the United Kingdom except for Pitcher and Le Quesne Limited which is incorporated in Jersey and is effectively 100 per cent controlled. All of the above shareholdings are held indirectly, with the exception of Dignity (2004) Limited.

Additions in the period reflect the effect of capital contributions to subsidiaries as a result of share-based payment schemes operated in those company's over the shares of Dignity plc.

C3 Debtors

	31 December 2010 £m	25 December 2009 £m
Amounts falling due within one year:		
Corporation tax	–	0.2
Amounts due from group undertakings	94.5	72.2
	94.5	72.4

C4 Creditors: amounts falling due within one year

	31 December 2010 £m	25 December 2009 £m
Amounts due to subsidiary undertakings	13.4	14.2
Accruals and deferred income	0.3	0.2
Deferred Dividend Option	0.1	–
	13.8	14.4

C5 Share capital and reserves

	31 December 2010 £m	25 December 2009 £m
Allotted, called up and fully paid Equity shares		
54,757,002 (2009: 63,737,653) Ordinary Shares of £0.105 (2009: £0.09) each	5.7	5.7

From 1 October 2009, the Companies Act 2006 abolished the requirement for a company to have an authorised share capital. The Company's articles have been updated to show there are no restrictions to the Company's ability to issue shares.

Each Ordinary Share carries equal voting rights and there are no restrictions on any share.

During the period, the Group received £nil in relation to the 143,713 shares issued under the 2007 LTIP scheme.

Changes in issued share capital

On 10 October 2010, the Ordinary Share capital of the Company was consolidated such that shareholders received six Ordinary Shares of £0.105 each in exchange for every seven Ordinary Shares of £0.09 each held at close of business on 8 October 2010.

As a result of the Return of Value undertaken in the year bonus shares of 19,274,610 B Shares with a nominal value of £1 per share and 44,607,017 C Shares were issued. The B Shares were issued on 8 October 2010 and redeemed for cash on 11 October 2010. The C Shares were issued on 8 October 2010 and 44,500,715 were converted to Deferred Shares on the same day.

As a result of the Return of Value undertaken in the year, the Group has 106,302 (2009: nil) C Shares in issue at the period end. These C Shares have no voting rights and in accordance with the rights attached to the C Shares, the Company may at any time after 1 May 2011 but before 31 July 2011 purchase the C Shares in issue for £1 per C Share.

The Group also has 44,500,715 (2009: nil) Deferred Shares in issue at the period end. These Deferred Shares have no voting rights and have a nominal value of £0.0001 per share, £4,500 in total. The Deferred Shares were purchased by the Company on 2 February 2011 for £1 in aggregate and subsequently cancelled on the same date.

Reserves and share premium account	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At the beginning of the period	35.8	80.0	1.1	84.1	201.0
Profit for the period	–	–	–	110.3	110.3
Share issue under 2007 LTIP scheme	0.9	–	–	–	0.9
Dividends paid on Ordinary Shares	–	–	–	(5.1)	(5.1)
Effects of employee share options	–	–	0.9	–	0.9
Gift to Employee Benefit Trust	–	–	(0.9)	–	(0.9)
Issue of B Shares in respect of Capital Option	(19.3)	–	–	–	(19.3)
Redemption of B Shares in respect of Capital Option	–	19.3	–	(19.3)	–
Dividend in respect of Special Dividend Option and Deferred Dividend Option	–	–	–	(44.6)	(44.6)
At end of period	17.4	99.3	1.1	125.4	243.2

The capital redemption reserve represents £80,002,465 B Shares that were issued on 2 August 2006 and redeemed for cash on the same day and £19,274,610 B Shares that were issued on 8 October 2010 and redeemed for cash on 11 October 2010.

£3.8 million (2009: £2.8 million) in other reserves relates to investments in own shares and therefore reduces profit available for distribution.

Notes to the Dignity plc financial statements continued

C6 Reconciliation of movement in shareholders' funds

	31 December 2010 £m	25 December 2009 £m
Profit for the period	110.3	21.8
Dividends	(5.1)	(7.3)
Effects of employee share options	0.9	1.0
Gift to Employee Benefit Trust	(0.9)	(1.2)
Shares issued under 2006 LTIP Scheme	–	1.2
Shares issued under 2007 LTIP Scheme	0.9	–
Issue of B Shares in respect of Capital Option	(19.3)	–
Dividend in respect of Special Dividend Option and Deferred Dividend Option	(44.6)	–
Net additions to shareholders' funds	42.2	15.5
Opening shareholders' funds	206.7	191.2
Closing shareholders' funds	248.9	206.7

Amounts payable to the Group's auditors relating to the Company are included in note 5 of the Group financial statements and are not material to disclose separately.

C7 Staff costs**(a) Employees**

There were no staff costs in the period (2009: £nil).

The average number of people, including Non-Executive Directors, employed by the Company during the period was:

	2010	2009
Administration and managerial	4	4
Total	4	4

(b) Directors' remuneration

The Directors are directors of the ultimate parent company, Dignity plc and details of their emoluments are included in pages 34 to 36. They received no emoluments in respect of their services to the Company (2009: £nil).

Financial record

Summarised consolidated income statement

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Revenue					
Funeral services	143.3	138.5	137.2	126.3	120.0
Crematoria	37.5	34.4	29.2	25.7	23.2
Pre-arranged funeral plans	18.3	11.8	9.4	7.5	6.6
	199.1	184.7	175.8	159.5	149.8
Underlying operating profit					
Funeral services	49.3	47.3	46.3	42.1	39.3
Crematoria	19.9	17.6	14.6	14.0	12.1
Pre-arranged funeral plans	4.3	3.5	2.5	2.4	2.4
Central overheads	(12.5)	(12.0)	(11.3)	(10.9)	(9.7)
	61.0	56.4	52.1	47.6	44.1
Finance costs	(22.5)	(21.6)	(21.6)	(21.7)	(22.1)
Finance income	1.9	1.6	3.8	4.2	5.9
Underlying profit before tax	40.4	36.4	34.3	30.1	27.9
Taxation	(11.7)	(10.6)	(10.1)	(9.1)	(8.6)
Underlying profit after tax	28.7	25.8	24.2	21.0	19.3
Underlying earnings per share (pence)	46.4p	40.5p	38.2p	33.4p	26.6p
Operating profit	60.4	57.5	53.2	47.7	43.4
Profit after tax	29.0	26.6	24.6	21.6	18.8
Basic earnings per share (pence)	46.9p	41.8p	38.8p	34.4p	25.9p

Key performance indicators

	2010	2009	2008	2007	2006
Total estimated number of deaths in Britain (number)	557,000	545,000	553,000	553,000	548,100
Number of funerals performed (number)	64,500	65,000	68,700	66,500	66,500
Funeral market share ¹ (per cent)	11.4%	11.8%	12.3%	12.0%	12.1%
Number of cremations performed (number)	45,200	42,700	39,600	38,900	38,500
Crematoria market share (per cent)	8.1%	7.8%	7.2%	7.0%	7.0%
Unfulfilled pre-arranged funeral plans (number)	238,000	216,000	204,000	197,300	188,800
Cash generated from operations (£million)	74.5	65.3	62.3	57.5	41.0

Net debt

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Net amounts owing on Class A and B Secured Notes per financial statements	(331.3)	(258.6)	(263.0)	(267.0)	(268.4)
Add: unamortised issue costs on Secured Notes	(17.8)	(14.6)	(15.9)	(17.2)	(18.6)
Net amounts owing on Crematoria Acquisition Facility per financial statements	(9.9)	(9.8)	(7.2)	–	–
Add: unamortised issue costs	(0.1)	(0.2)	(0.2)	–	–
Gross amounts owing	(359.1)	(283.2)	(286.3)	(284.2)	(287.0)
Accrued interest on Class A and B Secured Notes (paid 31 December)	–	(9.6)	(9.7)	(9.9)	–
Accrued interest on Crematoria Acquisition Facility	(0.1)	(0.1)	–	–	–
Cash and cash equivalents	48.1	45.8	46.7	52.6	41.4
Net debt	(311.1)	(247.1)	(249.3)	(241.5)	(245.6)

Financial record continued

Summarised consolidated balance sheet

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Non-current assets					
Goodwill and intangible assets	182.4	175.6	163.1	144.3	123.4
Property, plant and equipment	133.6	116.8	110.9	91.1	89.1
Financial and other assets	12.0	9.4	4.5	4.5	5.6
Retirement benefit asset	8.5	9.1	13.2	6.8	0.6
	336.5	310.9	291.7	246.7	218.7
Current assets					
Cash and cash equivalents	48.1	45.8	46.7	52.6	41.4
Other current assets	29.2	25.6	26.3	26.1	22.2
	77.3	71.4	73.0	78.7	63.6
Total assets	413.8	382.3	364.7	325.4	282.3
Current liabilities	47.0	48.6	47.6	43.3	27.9
Non-current liabilities	371.6	298.2	298.7	286.7	282.7
Total liabilities	418.6	346.8	346.3	330.0	310.6
Equity attributable to shareholders	(4.8)	35.5	18.4	(4.6)	(27.1)
Minority interest in equity	–	–	–	–	(1.2)
Total equity	(4.8)	35.5	18.4	(4.6)	(28.3)
Total equity and liabilities	413.8	382.3	364.7	325.4	282.3

NOTES

(1) Market share excluding funerals performed in Northern Ireland.

Notice of Meeting

Notice is hereby given that the 2011 Annual General Meeting of Dignity plc ('the Company') will be held at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL on Thursday 9 June 2011 at 11.00am for the following purposes:

Ordinary Resolutions

To propose the following as ordinary resolutions:

1. To receive and consider the Group's financial statements, and the reports of the Directors and auditors thereon for the 53 week period ended 31 December 2010.
2. To approve the Report on Directors' Remuneration for the 53 weeks ended 31 December 2010 as set out on pages 30 to 36 of the Annual Report 2010.
3. To re-appoint Peter Hindley, as a Director of the Company.
4. To re-appoint Mike McCollum, as a Director of the Company.
5. To re-appoint Andrew Davies, as a Director of the Company.
6. To re-appoint Richard Portman, as a Director of the Company.
7. To re-appoint Steve Whittern, as a Director of the Company.
8. To re-appoint James Newman, as a Director of the Company.
9. To re-appoint Bill Forrester, as a Director of the Company.
10. To re-appoint Ishbel Macpherson, as a Director of the Company.
11. To re-appoint Alan McWalter, as a Director of the Company.
12. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.
13. To approve the proposed dividend of 8.88 pence per Ordinary Share and to authorise its payments on 24 June 2011 to shareholders on the register of members on 27 May 2011; and
14. That, in substitution for all existing authorities to the extent unused, the Directors be and are hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 ('the Act') to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,916,496 provided that (unless previously revoked, varied or renewed) such authority shall expire at the conclusion of the next Annual General Meeting after passing this resolution or on 8 September 2012 (whichever is earlier), save that the Company may before such expiry make an offer or agreement which would or might require shares or grant such rights to be allotted after such expiry and the Directors may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

This authority is in substitution for all existing authorities under Section 551 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

Special Resolutions

To propose the following as special resolutions:

15. That subject to the passing of resolution 14 the Directors be and are hereby empowered pursuant to Section 570 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by resolution 14 as if Section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:
 - a) in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):
 - (i) to holders of Ordinary Shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of Ordinary Shares held by them; and
 - (ii) to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

but subject to such exclusion or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange;

Notice of Meeting continued

b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal amount of £287,474;

and (unless previously revoked, varied or renewed) shall expire at the conclusion of the next Annual General Meeting after passing this resolution or on 8 September 2012 (whichever is earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted for cash after such expiry and the Board may allot equity securities for cash in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

This power is in substitution for all existing powers under Section 570 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

16. That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Act to make market purchases (as defined in Section 693(4) of the Act) of Ordinary Shares, subject as follows:
- a) the maximum aggregate number of Ordinary Shares which may be purchased is 2,737,852;
 - b) the minimum price (including expenses) to be paid for each Ordinary Share shall be the nominal value of the Ordinary Share and the maximum price is the higher of:
 - (i) an amount equal to 105 per cent of the average of the middle market quotation of the Company's Ordinary Shares as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately prior to the day on which the purchase is made; and
 - (ii) an amount equal to the higher of the price of the last independent trade of an Ordinary Share and the higher current independent bid for an Ordinary Share on the trading venue where the purchase is carried out.

Unless previously revoked, varied or renewed the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on 8 September 2012 (whichever is earlier), except in relation to the purchase of shares the contract for which was entered into before the expiry of such authority and such purchase will or may be executed or completed wholly or partly after such expiry and accordingly the Company may make a purchase of Ordinary Shares pursuant to any such contract as if this authority had not expired.

17. That a general meeting (other than an annual general meeting) may be called on with not less than 14 clear days notice.

Registered office:
4 King Edwards Court
King Edwards Square
Sutton Coldfield
West Midlands B73 6AP

By order of the Board

Richard Portman
Company Secretary
10 March 2011

Notes

1. The right to vote at the meeting is determined by reference to the register of members. Only those shareholders registered in the register of members of the Company as at 6.00pm on 7 June 2011 (or, if the meeting is adjourned 6.00pm on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting.
2. A member of the Company entitled to attend and to vote may appoint, one or more proxies to attend and vote instead. A proxy need not be a member of the Company. A proxy form is enclosed. Completed proxy forms must be received by the Company's Registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZX, no later than 48 hours before the time of the Annual General Meeting or in the event the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting. A shareholder may appoint more than one proxy in relation to the meeting and should do so on a separate proxy form, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid. Additional proxy forms may be obtained by contacting the Company's registrar on 0871 384 2674* if calling from within the UK, or +44 (0) 121 415 7047 if calling from outside the UK or you may photocopy the proxy form. You will need to state clearly on each proxy form the number of shares in relation to which the proxy is appointed. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. The right of a member under Section 324 of the Companies Act 2006 ("2006 Act") to appoint a proxy does not apply to a person nominated to enjoy information rights under Section 146 of the 2006 Act.

*At the time of publication, calls to this number were charged at 8 pence per minute from a BT landline. The prices charged by BT and telephony providers may change from time to time. Lines are open from 8.30am to 5.30pm Monday to Friday.
3. The appointment of a proxy will not preclude a member of the Company from attending, speaking and voting in person at the meeting if he or she so wishes.
4. In the case of shares held in uncertificated form, the Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only members registered on the register of members of the Company at 6.00pm on 7 June 2011 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6.00pm on 7 June 2011 shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting.

5. The following are available for inspection at the Company's registered office during normal business hours on any weekday (excluding public holidays) and will be available for at least 15 minutes prior to, and during, the Annual General Meeting:
- the register of Directors' interests and those of their immediate families in the share capital of the Company;
 - copies of the Directors' service contracts and letters of appointment;
 - a copy of the Company's memorandum and articles of association.
6. Biographical details of those Directors who are offering themselves for re-election at the meeting are set out on page 26.
7. Total Voting Rights: As at 8 April 2011 (being the last practicable date before the publication of this notice), the Company's issued share capital consists of 54,757,054 Ordinary Shares of 10.5 pence, (carrying one vote each) and 106,302 C shares of 0.0001 pence each (carrying no voting rights). The Company does not hold any Ordinary Shares in treasury. Therefore, the total voting rights in the Company as at 8 April 2011 are 54,757,054.
8. Shareholders have the right to ask questions at the meeting relating to the business being dealt with at the meeting in accordance with Section 319A of the 2006 Act. The Company must answer any such question unless:
- (a) to do so would interfere unduly with the preparation for the meeting or would involve the disclosure of confidential information;
 - (b) the answer has already been given on a website in the form of an answer to a question; or
 - (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
9. The information required by Section 311A of the 2006 Act to be published in advance of the meeting, which includes the matters set out in this notice and information relating to the voting rights of shareholders, is available at www.dignityfunerals.co.uk/corporate.
10. Members can appoint proxies electronically by logging on to the website www.sharevote.co.uk. You will need your voting reference numbers (the voting ID, Task ID and shareholder reference number shown on your form of proxy). Alternatively, if you have registered for a Shareview portfolio, please access the Equiniti shareview website at www.shareview.co.uk, by entering your portfolio identification particulars and click on the link 'vote' under your Dignity plc holding details. For an electronic proxy appointment to be valid, the appointment must be received by no later than 11.00am on 7 June 2011.
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available at www.euroclear.com/CREST). CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA 19) by no later than 11.00am on 7 June 2011. No such message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Where a copy of this notice is being received by a person who has been nominated to enjoy information rights under Section 146 of the 2006 Act ("nominee"):
- (a) the nominee may have a right under an agreement between the nominee and the member by whom he was nominated, to be appointed, or to have someone else appointed, as a proxy for the meeting; or
 - (b) if the nominee does not have any such right or does not wish to exercise such right, the nominee may have a right under any such agreement to give instructions to the member as to the exercise of voting rights.
- The statement of the rights of the shareholders in relation to the appointment of proxies in notes 2, 3, 10 and 11 does not apply to a nominee. The rights in such notes can only be exercised by shareholders of the Company.
13. A shareholder which is a corporation may authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares.
14. A shareholder or shareholders meeting the qualification criteria set out in note 17 below may require the Company to give shareholders notice of a resolution which may properly be proposed and is intended to be proposed at the meeting in accordance with Section 338 of the 2006 Act.
- A resolution may properly be proposed unless (i) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (ii) it is defamatory of any person, or (iii) it is frivolous or vexatious.
- The business which may be dealt with at the meeting includes a resolution circulated pursuant to this right.
- Any such request must:
- (a) identify the resolution of which notice is to be given, by either setting out the resolution in full or, if supporting a resolution requested by another shareholder, clearly identifying the resolution which is being supported;
 - (b) comply with the requirements set out in note 18 below; and
 - (c) be received by the Company no later than six weeks before the meeting.

Notice of Meeting continued

15. A shareholder or shareholders meeting the qualification criteria set out in note 17 below may require the Company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business in accordance with section 338A of the 2006 Act.

A matter may properly be included unless (i) it is defamatory of any person, or (ii) it is frivolous or vexatious.

Any such request must:

- (a) identify the matter to be included in the business, by either setting out the matter in full or, if supporting a matter requested by another shareholder, clearly identifying the matter which is being supported;
- (b) set out the grounds for the request;
- (c) comply with the requirements set out in note 18 below; and
- (d) be received by the Company no later than six weeks before the meeting.

16. A shareholder or shareholders who meet the qualification criteria set out in note 17 below may require the Company to publish on its website a statement setting out any matter that such shareholders propose to raise at the meeting relating to either the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the meeting or any circumstances connected with an auditor of the Company ceasing to hold office since the last annual general meeting of the Company in accordance with section 527 of the 2006 Act.

Any such request must:

- (a) identify the statement to which it relates, by either setting out the statement in full or, if supporting a statement requested by another shareholder, clearly identifying the statement which is being supported;
- (b) comply with the requirements set out in note 18 below; and
- (c) be received by the Company at least one week before the meeting.

Where the Company is required to publish such a statement on its website:

- (i) it may not require the shareholders making the request to pay any expenses incurred by the Company in complying with the request;
- (ii) it must forward the statement to the Company's auditors no later than the time when it makes the statement available on the website; and
- (iii) the statement may be dealt with as part of the business of the meeting.

17. In order to require the Company (i) to circulate a resolution to be proposed at the meeting as set out in note 14, (ii) to include a matter in the business to be dealt with at the meeting as set out in note 15, or (iii) to publish audit concerns as set out in note 16, the relevant request must be made by:

- (a) a shareholder or shareholders having a right to vote at the meeting and holding at least five per cent of the total voting rights of the Company; or
- (b) at least 100 shareholders having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital.

For information on voting rights, including the total voting rights of the Company, see note 7 above and the website referred to in note 9 above.

18. Any request by a shareholder or shareholders to require the Company (i) to circulate a resolution to be proposed at the meeting as set out in note 14, (ii) to include a matter in the business to be dealt with at the meeting as set out in note 15, or (iii) to publish audit concerns as set out in note 16:

(a) may be made either:

- (i) in hard copy, by sending it to Dignity plc, 4 King Edwards Court, King Edwards Square, Sutton Coldfield, B73 6AP; or
- (ii) in electronic form, by faxing it to +44 (0) 121 321 5644, marked for the attention of the Company Secretary or by e-mail to CompanySecretary@dignityuk.co.uk (please state "Dignity plc: AGM" in the subject line of the email);

(b) must state the full name(s) and address(es) of the shareholder(s); and

(c) (where the request is made in hard copy form) must be signed by the shareholder(s).

19. Except as provided above, shareholders who wish to communicate with the Company in relation to the meeting should do so using the following means:

- (a) calling our shareholder helpline on +44 (0) 871 384 2674; or
- (b) by post, by sending it to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

20. You may not use any electronic address provided in either this Notice of General Meeting or any related documents (including the Proxy form) to communicate with the Company for any purpose other than those expressly stated.

Shareholder information

General enquiries may be addressed to the Company Secretary, Richard Portman, at the Company's registered office. Other useful information is as follows:

General information

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom.

Company registrars

Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's Registrars, Equiniti. They also provide a range of online shareholder information services at www.shareview.co.uk where shareholders can check their holdings and find practical help on transferring shares and updating personal details. Alternatively they can be contacted by telephone on +44 (0) 871 384 2674* if calling from within the UK, or +44 (0) 121 415 7047 if calling from outside the UK or by fax on +44 (0) 871 384 2100* if faxing from within the UK, or +44 (0) 190 369 8403 if faxing from outside the UK.

*At the time of publication, calls to these numbers were charged at 8 pence per minute from a BT landline. The prices charged by BT and other telephony providers may change from time to time. Lines are open 8.30am to 5.30pm Monday to Friday.

Shareholder communications

Following a change to company law, and subsequent shareholder approval at the 2007 Annual General Meeting, shareholder documents are only sent in paper format to shareholders who have elected to receive documents in this way. This approach enables the Company to reduce printing and distribution costs and its impact on the environment. Shareholders who have not elected to receive paper copies are sent a notification whenever shareholder documents are published to advise them how to access the documents via the Group website at www.dignityfuneralsplc.co.uk. Shareholders may also choose to receive this notification via email with a link to the relevant page on the website.

Shareholders who wish to receive email notification should register online at www.shareview.co.uk click on 'Register' under the 'Portfolio' section. You will require your Shareholder Reference Number, which is given on your share certificate or tax dividend voucher. Choosing email notification will result in you joining the Equiniti Shareview Service in accordance with its terms and conditions, which you can find at www.shareview.com/terms.

Share price information

The latest Dignity plc share price can be obtained via the Company's investor website www.dignityfuneralsplc.co.uk. It can also be obtained in the UK on Ceefax.

Unsolicited mail

The Company is obliged by law to make its share register available upon request to the public and to other organisations which may use it as a mailing list resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, Freepost 22, London W1E 7EZ or telephone +44 (0) 845 703 4599 for an application form. Calls to this number are charged at local rate.

Annual General Meeting

The Company's Annual General Meeting will be held on 9 June 2011, at 11.00am at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL.

Contact details and advisers

Registered Office:

Dignity plc
4 King Edwards Court
King Edwards Square
Sutton Coldfield
West Midlands B73 6AP

Tel: +44 (0) 121 354 1557
Fax: +44 (0) 121 321 5644
Email: enquiries@dignityuk.co.uk
www.dignityfuneralsplc.co.uk

Company Secretary:

Richard Portman FCA

Registered Number:

4569346

Registrars:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Tel: +44 (0) 871 384 2674
Fax: +44 (0) 871 384 2100
www.shareview.co.uk

Auditors:

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

Joint Brokers:

Panmure Gordon & Co
Moorgate Hall
155 Moorgate
London EC2M 6XB

Investec

A division of Investec Bank plc
2 Gresham Street
London EC2V 7EE

Principal Bankers:

Royal Bank of Scotland plc
West Midlands Corporate Office
2 St Philips Place
Birmingham B3 2RB

Legal Adviser:

DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham B2 4DL

Financial calendar

10 March 2011

Preliminary announcement
of 2010 results

9 June 2011

Annual General Meeting

1 July 2011

2011 financial half year end

24 June 2011 (subject to shareholder approval)

Payment of 2010 final dividend

27 July 2011 (provisional)

Announcement of interim results

24 October 2011 (provisional)

Payment of 2011 interim dividend

30 December 2011

Financial period end

Acknowledgements

Dignity would like to thank all those who participated in producing this Annual Report, particularly the members of staff for their contributions.

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Main photography by Martyn Woodhouse

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